

**LONDON BOROUGH OF SUTTON****STATEMENT OF ACCOUNTS****2010/11****CONTENTS**

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# Section 1

## **Explanatory Foreword**

**2010/11**



## 1. Introduction

The accounts on the following pages set out the Council's financial performance for the year to the 31 March 2011, and its financial position at that date. This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position.

## 2. Revenue Expenditure

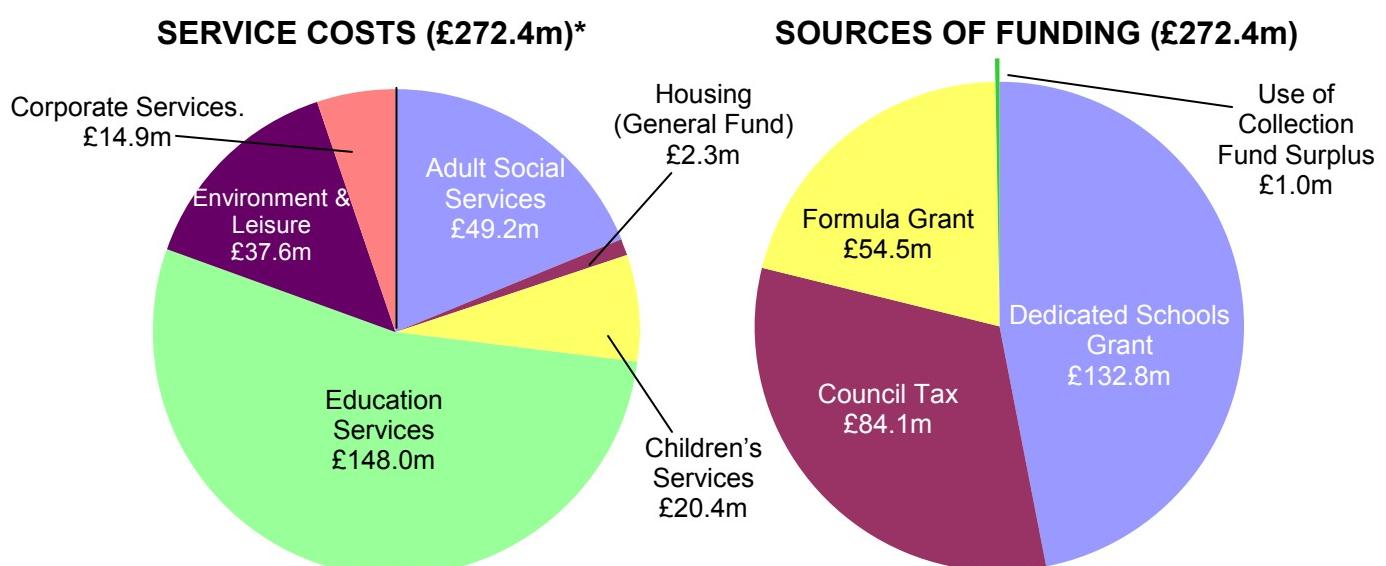
In March 2010 the Council set a net expenditure budget for 2010/11 of £139.602 million. This resulted in a Band D Council Tax for Sutton purposes frozen at £1,140.89 and a total Band D Council Tax including the Greater London Authority precept of £1,450.71.

Significant spending variations for the year were experienced in the Childrens and Families Service (£3.3 million overspend) and in Adult Social Services (£1.8 million underspend). A balance of £3.5 million remained in the central contingency provision at the year end resulting in an overall net underspend of £2.506 million (1.8%) against original estimates.

The Executive, at the meeting of 6 June 2011, approved the setting aside of £1.5 million to support costs of expected redundancies arising from Smarter Services Sutton reviews, and £1.0 million to be used as a flexible resource to boost capacity, invest in services or mitigate financial risks.

The overall effect of these variances and the approved allocations to reserves is a net underspending of £6k against original estimates. After allowing for the use of £0.8 million from balances to support the capital programme, and £0.813 million from balances to offset lost income due to the recession, General Fund balances at year end have reduced by £1.607m to £7.549 million. Appropriate allowances for provisions and reserves were also made as at 31 March 2011.

The diagrams below show General Fund Outturn expenditure analysed by service group and sources of funding.



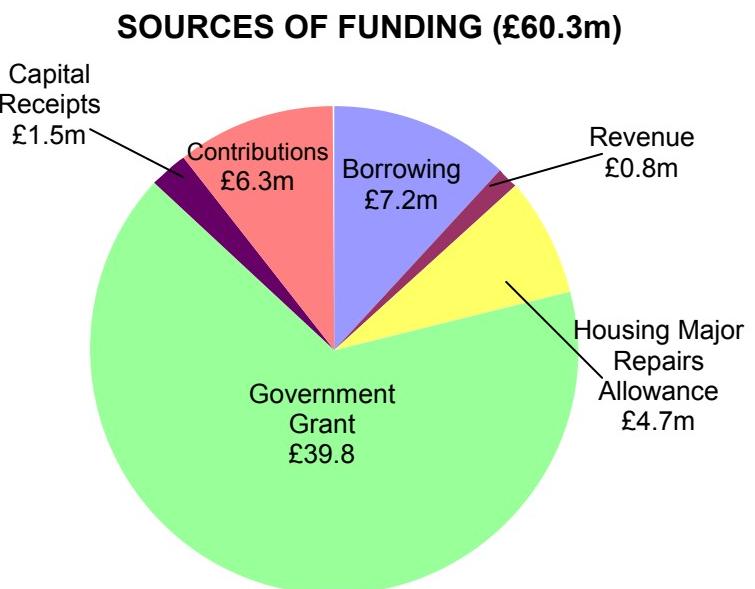
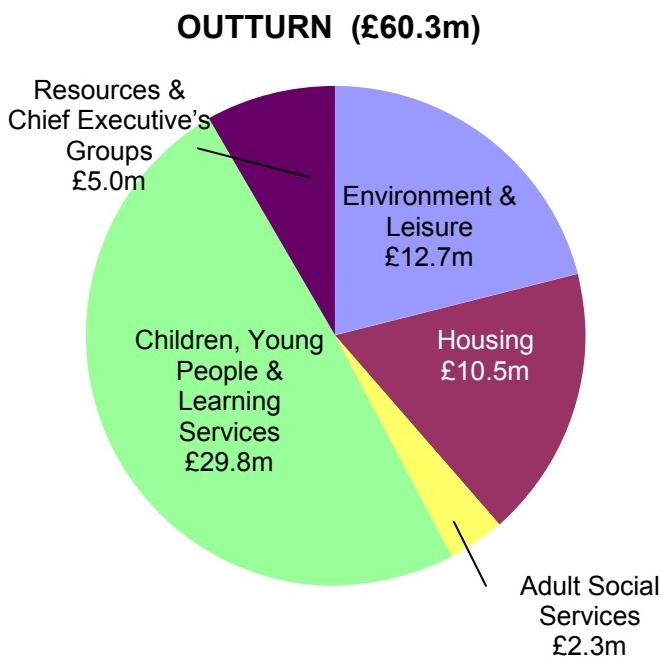
\* Service costs include direct schools expenditure of £132.8m financed from Dedicated Schools Grant.

Council Housing also has to be separately accounted for through the Housing Revenue Account. The outturn position showed an overall overspending of £0.497 million against final estimates as approved by the Council, reducing the working balance to £0.326 million at year end.

The outturn figures by service group are reclassified to comply with the Service Reporting Code of Practice and to include full recognition of International Accounting Standard 19 (IAS 19) on retirement benefits in the Comprehensive Income and Expenditure Statement.

### 3. Capital Expenditure 2010/11

In March 2010 the Council approved a capital budget, adjusted for slippage, of £73.2 million. This was amended to £60.2 million at revised estimates, and compares with a final outturn of £60.3 million. The Service Groups' profile of the Capital Outturn is shown below.



The Council is working on a number of key 'signature' projects. The largest of these is the Stanley Park High School project with the new school due for completion in 2012 at a cost of some £48 million.

#### 4. External Audit and Inspection Letter

The Council's Independent External Auditor the Audit Commission prepares an Annual Governance Report which will be reported to the Audit Committee on the 29 August and reports their findings from the annual audit of these accounts. The Audit Commission also prepares an Annual Audit and Inspection Letter which summarises their findings and recommendations on audit and inspection work undertaken during the year. The 2010/11 letter will be considered by the Executive during the winter cycle of meetings. When available, a copy can be obtained from the Strategic Director – Resources or viewed on the Council's website.

#### 5. The main statements in this document are:

**Movement in Reserves** - this statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'surplus or (deficit) on the provision of services' line shows the true 'net' economic cost of providing the authority's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charges to the General Fund balance and Housing Revenue Account for council tax setting and dwellings rent setting purposes. The 'net increase /decrease before transfers to earmarked reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**Comprehensive Income and Expenditure Statement** – this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

**Balance Sheet** – this shows the value as at the year end date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

**Cash Flow Statement** – this shows the changes in cash and cash equivalents of the authority during the reporting period. It shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting the claim on future cash flows by providers of capital (i.e. borrowing) to the authority.

**Housing Revenue Account (HRA) Income and Expenditure Statement** – this shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the **Movement on the HRA statement**.

**Collection Fund** – this the Council's statement in its capacity as an agent that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund account. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

**Group Accounts** - Sutton Housing Partnership manages the Council's housing stock as an arms length management organisation under the ultimate control of the Council. Group accounts have been prepared to give an overall picture of the activities and financial position of the Council including those activities carried out by Sutton Housing Partnership on behalf of the Council.

**Pension Fund Accounts** – this shows the income and expenditure of the pension fund in relation to current employees and pensioners, investment transactions and the position of the Fund at year end including future liabilities. To comply with International Accounting Standard 19: Retirement Benefits, the actuarially calculated Pension Fund deficit is disclosed on the face of the Council's balance sheet as a net liability and reserve.

**Statement of Responsibilities for the Statement of Accounts** – sets out the different responsibilities of the Council and the Strategic Director – Resources in terms of financial administration and accounting.

**Annual Governance Statement** - provides assurances on the Council's governance framework, that comprises the systems, processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community.



## Section 2

# Core Financial Statements

**2010/11**



# **Movement in Reserves Statement**

**2010/11**

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

CORE FINANCIAL STATEMENTS – MOVEMENT IN RESERVES STATEMENT

**Movement in Reserves Statement**

2009/10	General Fund Balance *	Earmarked General Fund Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2009	19,426	14,524	1,481	6,604	143	0	42,178	511,075	553,253
Surplus or (Deficit) on provision of services (accounting basis)	(12,448)	0	16,704	0	0	0	4,256	0	4,256
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(138,401)	(138,401)
<b>Total Comprehensive Expenditure and Income</b>	<b>(12,448)</b>	<b>0</b>	<b>16,704</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,256</b>	<b>(138,401)</b>	<b>(134,145)</b>
Adjustments between accounting basis and funding basis under regulations	8,872	0	(16,948)	(1,183)	(73)	0	(9,332)	9,332	0
<b>Net (Increase)/Decrease before transfers to Earmarked Reserves</b>	<b>(3,576)</b>	<b>0</b>	<b>(244)</b>	<b>(1,183)</b>	<b>(73)</b>	<b>0</b>	<b>(5,076)</b>	<b>(129,069)</b>	<b>(134,145)</b>
Transfers to / from Earmarked Reserves	(1,049)	890	0	0	159	0	0	0	0
<b>(Increase) / Decrease in Year</b>	<b>(4,625)</b>	<b>890</b>	<b>(244)</b>	<b>(1,183)</b>	<b>86</b>	<b>0</b>	<b>(5,074)</b>	<b>(129,069)</b>	<b>(134,145)</b>
<b>Balance at 31 March 2010</b>	<b>14,801*</b>	<b>15,414</b>	<b>1,237</b>	<b>5,421</b>	<b>229</b>	<b>0</b>	<b>37,102</b>	<b>382,006</b>	<b>419,108</b>

\* (General Fund £9,156k, schools £5,645k

2010/11	General Fund Balance *	Earmarked General Fund Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2010	14,801	15,414	1,237	5,421	229	0	37,102	382,006	419,108
Surplus or (Deficit) on provision of services (accounting basis)	74,977	0	(129,871)		0	0	(54,894)	0	(54,894)
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	86,362	86,362
<b>Total Comprehensive Expenditure and Income</b>	<b>74,977</b>	<b>0</b>	<b>(129,871)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(54,894)</b>	<b>86,362</b>	<b>31,468</b>
Adjustments between accounting basis and funding basis under regulations (Note 6)	(69,270)	0	129,429	(1,000)	(177)	0	58,982	(58,982)	0
<b>Net (Increase)/Decrease before transfers to Earmarked Reserves</b>	<b>5,708</b>	<b>0</b>	<b>(442)</b>	<b>(1,000)</b>	<b>(177)</b>	<b>0</b>	<b>4,089</b>	<b>27,380</b>	<b>31,468</b>
Transfers to / from Earmarked Reserves	(3,554)	3,554	52	0	(52)	0	0	0	0
<b>(Increase) / Decrease in Year</b>	<b>2,153</b>	<b>3,555</b>	<b>(390)</b>	<b>(1,000)</b>	<b>(229)</b>	<b>0</b>	<b>4,089</b>	<b>27,380</b>	<b>31,468</b>
<b>Balance at 31 March 2011</b>	<b>16,954*</b>	<b>18,968</b>	<b>847</b>	<b>4,421</b>	<b>0</b>	<b>0</b>	<b>41,190</b>	<b>409,386</b>	<b>450,576</b>

\* (General Fund £7,549k, schools £9,405k

# **Comprehensive Income & Expenditure Statement**

**2010/11**

This details income and expenditure for each of the Council's services and consolidates the income and expenditure for the General Fund and the Housing Revenue Account.

# **Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2011**

2009/10			2010/11			
Expenditure	Income	Net Expenditure	Notes	Expenditure	Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
20,255	15,472	4,783		21,091	16,418	4,673
42,423	10,020	32,403		42,330	8,286	34,044
193,297	167,121	26,176		189,358	176,472	12,886
13,178	5,328	7,850		13,516	6,892	6,624
22,237	3,345	18,892		24,395	3,555	20,840
26,656	5,101	21,555		27,373	5,155	22,218
75,495	69,754	5,741		79,538	71,234	8,304
32,929	32,770	159		32,850	32,382	468
2,248	0	2,248		1,442	0	1,442
0	19,247	(19,247)		127,717	0	127,717
0	0	0		681	0	681
83,032	34,779	48,253		83,122	33,728	49,394
7,935	0	7,935		5,976	119	5,857
1,045	31	1,014		1,558	7	1,551
31	0	31		0	61,699	(61,699)
<b>520,761</b>	<b>362,968</b>	<b>157,793</b>		<b>650,947</b>	<b>415,947</b>	<b>235,000</b>
5,701	3,297	2,404	8	6,000	4,295	1,705
16,519	2,877	13,642	9	14,229	1,155	13,074
0	178,095	(178,095)	10	0	194,885	(194,885)
<b>(4,256)</b>						<b>54,894</b>
(8,081)						(27,224)
149,886						(62,542)
(3,404)						<b>3,404</b>
<b>138,401</b>						<b>(86,362)</b>
<b>134,145</b>						<b>(31,468)</b>
<b>Total comprehensive income and expenditure</b>						

# **Balance Sheet**

**2010/11**

This sets out the financial position of the Council as at 31 March 2011 and consolidates the individual balance sheets for the General Fund, Housing Revenue Account and Collection Fund.

CORE FINANCIAL STATEMENTS – BALANCE SHEET

**Balance Sheet as at 31 March 2011**

31 March 2009 £'000	31 March 2010 £'000	Notes	31 March 2011 £'000	31 March 2011 £'000
<b>Non-Current Assets</b>				
360,745	388,098	Property, Plant and Equipment - Council Dwellings	11	257,622
347,525	339,259	- Other Land and Buildings		371,071
6,005	5,663	- Vehicles, Plant, Furniture and Equipment		5,190
9,489	9,489	- Infrastructure Assets		9,489
540	1,154	- Community Assets		1,267
28,144	35,317	- Assets Under Construction		46,915
12,055	12,422	- Surplus Assets Held for Disposal		10,204
27,805	28,490	Investment Properties	12	28,356
4,217	1,456	Long Term Investments	14	0
892	1,177	Long Term Debtors	14	1,584
<b>797,417</b>	<b>822,525</b>			<b>731,698</b>
<b>Total Non-Current Assets</b>				
<b>Current Assets</b>				
47,110	38,261	Short term investments	14	36,119
0	500	Assets Held for Sale		7,441
249	388	Inventories	15	401
29,854	35,537	Debtors	16	30,266
1,185	0	Cash and cash equivalents	17	1,610
<b>78,398</b>	<b>74,686</b>			<b>75,837</b>
<b>Total Current Assets</b>				
<b>Current Liabilities</b>				
174	1,085	Short term borrowing	14	1,028
36,881	33,204	Capital Grants Receipt in Advance	33	26,071
37,341	42,711	Creditors	18	46,587
4,813	5,984	Provisions	19	5,462
0	845	Bank Overdraft	17	0
<b>79,209</b>	<b>83,829</b>			<b>79,148</b>
<b>Total Current Liabilities</b>				
<b>Non-Current Liabilities</b>				
2,070	1,716	Provisions	19	1,866
65,883	64,794	Long term borrowings	14	64,715
175,400	327,764	Liability Related to Defined Benefit Pension Scheme	38	211,230
<b>243,353</b>	<b>394,274</b>			<b>277,811</b>
<b>553,253</b>	<b>419,108</b>			<b>450,576</b>
<b>Net Assets</b>				
<b>Non-usable reserves</b>				
61,750	69,925	Revaluation Reserve	21a	94,959
629,180	645,937	Capital Adjustment Account	21b	530,967
232	254	Deferred Capital Receipts/Income	21e	249
(175,400)	(327,764)	Pensions Reserve	21d	(211,230)
(1,521)	(1,436)	Financial Instruments Adjustment Account	21c	(1,352)
(4,813)	(5,984)	Accumulated Absences Account	21g	(5,463)
1,647	1,074	Collection Fund Adjustment Account	21f	1,256
<b>511,075</b>	<b>382,006</b>			<b>409,386</b>
<b>Usable Reserves</b>				
6,404	5,421	Capital Grants & Contributions Unapplied	22	4,421
143	229	Major Repairs Reserve		0
1,481	1,237	Housing Revenue Account		847
19,426	14,801	General Reserves – General Fund		16,954
14,524	15,414	Earmarked Reserve		18,968
<b>42,478</b>	<b>37,102</b>			<b>41,190</b>
<b>553,253</b>	<b>419,108</b>			<b>450,576</b>
<b>Total Reserves</b>				

# **Cash Flow Statement**

**2010/11**

This summarises the inflows and outflows of cash relating to the General Fund, Housing Revenue Account and Collection Fund.

**Cash Flow Statement**

<b>2009/10</b> £'000		<b>Notes</b>	<b>2010/11</b> £'000
4,256	<b>Net (Surplus) or Deficit on the Provision of services</b>		(54,894)
524,246	Adjust net surplus or deficit on the provision of services for non cash movements	22	678,503
(522,520)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	22	(614,118)
<b>5,982</b>	<b>Net Cash Inflow/(Outflow) from operating activities</b>		<b>9,491</b>
(8,843)	<b>Investing Activities</b>	24	(7,162)
831	<b>Financing Activities</b>	25	126
<b>(2,030)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>2,455</b>
1,185	Cash and cash equivalents at the beginning of the reporting period	17	(845)
(845)	Cash and cash equivalents at the end of the reporting period	17	1,610

## Section 3

# **Notes to the Core Financial Statements**

**2010/11**

## 1. Transition to IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. Adoption of the IFRS-based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

### a) Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. This means that the £1.171m accrual for 2010/11 is transferred to the Accumulated Absences Account until the benefits are used, and doesn't impact on council tax.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

#### Opening 1 April 2009 Balance Sheet

	2009/10 Statements	Adjustments Made
	£000	£000
Provisions	0	(4,813)
Accumulated Absences Account	0	4,813

#### 31 March 2010 Balance Sheet

	2009/10 Statements	Adjustments Made
	£000	£000
Provisions	0	(5,984)
Accumulated Absences Account	0	5,984

**2009/10 Comprehensive Income and Expenditure Statement**

<b>Cost of Services (Net):</b>	<b>2009/10 Statements</b>	<b>Adjustments Made</b>
	<b>£000</b>	<b>£000</b>
Central Services to the Public	4,728	65
Cultural, Environmental, Regulatory and Planning	31,131	28
Children's & Education Services		
- Schools	17,535	939
- Non-Schools Funding	7,478	4
- Children's Services	18,873	19
Highways & Transport Services	14,526	(3)
Housing Services		
- General Fund Housing	4,233	0
- Housing Revenue Account	(19,247)	0
Adult Social Care	45,594	120
Corporate and Democratic Core	7,770	0
Non Distributed Costs	1,045	0
<b>Net costs of services</b>	<b>136,073</b>	<b>1,172</b>
Other operating expenditure	0	(1)
<b>(Surplus)/Deficit on provision of services</b>	<b>136,073</b>	<b>1,171</b>

**b) Government Grants**

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account and the Grants and Contributions Applied Pending Completion Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures. Only those grants received in 2009/10 are now recognised as income in year.
- Some grants were received in 2009/10 but were not used. Previously no income was recognised in respect of these grants, which were shown in the Grants Unapplied Account within the liabilities section of the balance sheet. Following the change in accounting policy, where the conditions of these grants have been met they have been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.

This has resulted in the following changes being made to the 2009/10 statements:

<b>Opening 1 April 2009 Balance Sheet</b>	<b>2009/10</b>	<b>Adjustments</b>
	<b>Statements</b>	<b>Made</b>
	<b>£000</b>	<b>£000</b>
Government Grants Deferred Account	4,798	(4,798)
Grants & Contributions Applied Pending Completion	3,878	(3,878)
Grants Unapplied Account (liabilities)	38,661	(1,780)
Capital Adjustment Account	629,279	8,676
Capital Grants Unapplied Account (reserves)	0	1,637
<b>31 March 2010 Balance Sheet</b>	<b>2009/10</b>	<b>Adjustments</b>
	<b>Statements</b>	<b>Made</b>
	<b>£000</b>	<b>£000</b>
Government Grants Deferred Account	16,547	(16,547)
Grants & Contributions Applied Pending Completion	6,438	(6,438)
Grants Unapplied Account (liabilities)	32,439	765
Capital Adjustment Account	635,189	22,985
Capital Grants Unapplied Account (reserves)	1,363	1,315
<b>2009/10 Comprehensive Income and Expenditure Statement</b>	<b>2009/10</b>	<b>Adjustments</b>
	<b>Statements</b>	<b>Made</b>
	<b>£000</b>	<b>£000</b>
<b>Net cost of services</b>		
Central Services to the Public	4,728	(10)
Cultural, Environmental, Regulatory and Planning	31,131	1,228
Children's & Education Services		
- Schools	17,535	4,747
- Non-Schools Funding	7,478	71
- Children's Services	18,873	0
Highways & Transport Services	14,526	7,032
Housing Services		
- General Fund Housing	4,233	1,508
- Housing Revenue Account	(19,247)	0
Adult Social Care	45,594	2,539
Corporate and Democratic Core	7,770	165
Non Distributed Costs	1,045	0
General Government Grants	(18,844)	(31,422)

**c) Cash and Cash Equivalents**

Under IFRS Authorities are now required to disclose their cash balances and any cash equivalents that they hold. Cash equivalents are investments that are highly liquid, readily convertible to known amounts of cash and have insignificant risk of change in value.

A review has been completed and no cash equivalents have been identified as being held. The Council does hold short term investments but these are considered as being held for investment purposes.

**d) Investment Properties**

Under IFRS investment properties are revalued on an annual basis and the gains or losses as a result of the revaluations are taken to the Capital Adjustment Account. Under UK GAAP revaluations would be transferred to the revaluation reserve.

As a result of this change in accounting treatment the following changes have occurred:

<b>Opening 1 April 2009 Balance Sheet</b>	<b>2008/09 Statements</b>	<b>Adjustments Made</b>
	£000	£000
Revaluation Reserve	52,975	(1,440)
Capital Adjustment Account	629,279	1,440

<b>31 March 2010 Balance Sheet</b>	<b>2009/10 Statements</b>	<b>Adjustments Made</b>
	£000	£000
Revaluation Reserve	57,688	(2,135)
Capital Adjustment Account	635,189	2,135

<b>2009/10 Comprehensive Income and Expenditure Statement</b>	<b>2009/10 Statements</b>	<b>Adjustments Made</b>
	£000	£000
Financing and Investment Income & Expenditure	14,323	(695)
Other Comprehensive Income & Expenditure		
- Net (surplus)/ loss on revaluation of assets	(5,510)	695

**e) Componentisation of Assets**

Under IFRS assets are required to be split between their components, for example the lifts will be considered as a separate asset from the building within which they are located as they have a significantly different useful life from the building. As a result of this change the Councils' asset records were reviewed. This work identified that the revaluations of land and buildings had been treated as a net figure in prior years rather than being considered separately. As a result there was a negative balance sitting on the revaluation reserve for a number of assets. This was corrected as part of the 2009/10 restatement.

As a result of this the following changes have occurred:

<b>Opening 1 April 2009 Balance Sheet</b>	<b>2008/09 Statements</b>	<b>Adjustments Made</b>
	£000	£000
Revaluation Reserve	52,975	10,215
Capital Adjustment Account	629,279	(10,215)

<b>31 March 2010 Balance Sheet</b>	<b>2009/10 Statements</b>	<b>Adjustments Made</b>
	£000	£000
Revaluation Reserve	57,688	14,372
Capital Adjustment Account	635,189	(14,372)

<b>2009/10 Comprehensive Income and Expenditure Statement</b>	<b>2009/10 Statements</b>	<b>Adjustments Made</b>
	£000	£000
<b>Net cost of services</b>		
Central Services to the Public	4,728	0
Cultural, Environmental, Regulatory and Planning	31,131	16
Children's & Education Services		
- Schools	17,535	2,955
- Non-Schools Funding	7,478	297
- Children's Services	18,873	0
Highways & Transport Services	14,526	0
Housing Services		
- General Fund Housing	4,233	0
- Housing Revenue Account	(19,247)	0
Adult Social Care	45,594	0
Corporate and Democratic Core	7,770	0
Non Distributed Costs	1,045	0
<b>Net (Surplus)/ gains on revaluation of fixed asset</b>	<b>(5,510)</b>	<b>(3,268)</b>

## 2. Accounting Policies

### a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Service Reporting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### b Accruals of Income and Expenditure

The financial statements, other than cash flow information, have been prepared on an accruals basis. This means that activities are accounted for in the year that they take place, not simply when cash payments are made or received. For example:

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, and;
- revenue from the provision of services is recognised when the Authority provide the service rather than when payment is received.

Where income and expenditure have been recognised but cash has not been received or paid a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors are either actual amounts due at the end of the year or estimated amounts. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge is made to revenue for the estimated amount of income that might not be collected.

### c Cash and Cash Equivalents

The Council has treated all of its cash invested within money market funds or call accounts at the balance sheet date as investments and not cash equivalents. This is because these funds are invested to achieve a return and not for cashflow purposes. The use of short dated instruments limits both counterparty risk and interest rate risk and reflects the current interest rate environment.

### d Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

From 2010/11 Local Authorities are required to adopt International Financial Reporting Standards. Where this has resulted in changes to the accounts, the changes have been applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied. Details of the impact of this change in accounting policy can be found in note 1.

**e Charges to Revenue for Non-Current Assets**

Service, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off, and;
- amortisation of intangible fixed assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund balance [Minimum Revenue Provision], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**f Employee Benefits**

**Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates estimated as applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or a decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer for voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

## **g Post Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE), and;
- the Local Government Pensions Scheme, administered by the London Borough of Sutton.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees within the service of the Authority, in accordance with the schemes' rules.

However, the national arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

### **The Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme:

- the liabilities of the London Borough of Sutton pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- liabilities are discounted to their value at current prices, using a discount rate of 5.5%, which is based on the yield available on a basket of AA-rated bonds with long term returns to maturity (the iBoxx Sterling Corporates AA over 15 Years Index);
- the assets of London Borough of Sutton pension fund attributable to the Authority are included in the Balance Sheet at bid value as required under IAS 19;

- the change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
  - contributions paid to the London Borough of Sutton pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees

## **h Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events, and;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **i Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged directly to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**j Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to count against the surplus or deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in more detail in the relevant policies.

**k Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify how or when the grants will be used.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors because until conditions are met we may be required to return the grant. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**Area Based Grant**

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## **I Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. On the majority of Council functions VAT is recoverable in full. VAT receivable is excluded from income.

## **m Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The full cost of overheads and support services are shared between users in proportion to the benefits received, the main bases for allocation are floor area for administrative buildings and estimated staff time for central services. The exception to this are:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation, and;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **n Intangible Fixed Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority. The Council's policy on capital expenditure which does not involve the creation of a fixed asset is to write the expenditure down to nil in the year it is incurred. This expenditure is charged to the relevant service revenue account.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes the amortisation is not permitted to have an impact on the General Fund balance. The amortisation is therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

## **o Interests in Companies and other Entities**

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

## **p Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**q Property Plant and Equipment**

Property, Plant and Equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

- the purchase price, and;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH), and;
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains), and;
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains), and;
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- council dwellings – depreciation equates to the Major Repairs Allowance as recommended by CLG;

- other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment – depreciated on a straight-line basis over the life of the asset as advised by a suitably qualified officer, and;
- infrastructure – any capital expenditure which is not considered to enhance the asset is depreciated in full in the year it is incurred.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

#### **r Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

#### **s Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. The Authority does not hold any finance leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

##### **The Authority as Lessee**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

##### **The Authority as Lessor**

The Authority grants leases on its investment properties. Please see Investment Property policy for details of treatment.

#### **t Financial Instruments**

##### **i. Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts

estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the re-purchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where re-purchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from, or added to, the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **ii. Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market, and;
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Authority holds no available-for-sale assets.

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that

service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **u Inventories and Long Term Contracts**

Inventories are included in the Balance Sheet at cost less provisions for damage and obsolescence. Some minor stocks are not valued and are excluded. The departure from International Accounting Standard 2, which recommends that stock is valued at the lower of cost or net realisable value, has no material effect on the accounts.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## **3. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 2, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a degree of uncertainty about future levels of funding for local government. However, it has been determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Authority might be affected by the need to reduce levels of service provision.

## **4. Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, it is possible that actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependant on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £700k for every year that useful lives had to be reduced.</p>
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £48m.</p> <p>However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pension liability had decreased by £117m attributable to updating of the assumptions.</p>
Arrears	<p>At 31 March 2011, the Authority had a balance of sundry debtors for £18,307k. A review of significant balances suggested that an impairment of doubtful debts of 29% (£5,300k) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, an increase of 1% of the amount of impairment of doubtful debts would require an additional £183k to set aside as an allowance.</p>

## 5. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Strategic Director - Resources on 30 June 2011. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2011 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to conditions at that date:

- thirteen schools within Sutton have become Academy schools and as such will no longer be included within the balances of London Borough of Sutton. This will lead to a reduction of the non-current asset balance of £82m. This will also result in a decrease in the income and expenditure in 2011/12, the size of which is not yet known.

## 6. Adjustment Between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

	Usable Reserves					
2010/11	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	15,309	6,845				(22,154)
Revaluation losses on Property Plant and Equipment	8,252	127,986				(136,238)
Movements in the market value of Investment Properties	204					(204)
Amortisation of intangible assets	2,661					(2,661)
Revenue expenditure funded from capital under statute	7,172					(7,172)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,789	158				(1,947)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(3,980)					3,980
Capital expenditure charged against the General Fund and HRA balances	(1,025)					1,025
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(44,201)				44,201	0
Application of grants to capital financing transferred to the Capital Adjustment Account					(45,201)	45,201

		Usable Reserves					
2010/11		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,092)	(883)	1,975				0
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,523)				1,523
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	452		(452)				0
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0						0
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA		(4,722)		4,722			0
Use of the Major Repairs Reserve to finance new capital expenditure				(4,899)			4,899
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(71)						71

<b>2010/11</b>	<b>Usable Reserves</b>					<b>Movement in Unusable Reserves £'000</b>
	<b>General Fund Balance £'000</b>	<b>Housing Revenue Account £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Major Repairs Reserve £'000</b>	<b>Capital Grants Unapplied £'000</b>	
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(34,430)	169				34,261
Employer's pensions contributions and direct payments to pensioners payable in the year	(19,607)	(124)				19,731
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(182)					182
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(521)					521
<b>Total Adjustments</b>	<b>(69,270)</b>	<b>129,429</b>	<b>0</b>	<b>(177)</b>	<b>(1,000)</b>	<b>(58,982)</b>

		Usable Reserves					
<b>2009/10 Comparative Figures</b>		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	9,360	4,587					(13,947)
Revaluation losses on Property Plant and Equipment	23,994	(16,999)					(6,995)
Movements in the market value of Investment Properties	(695)						695
Amortisation of intangible assets	3,908						(3,908)
Revenue expenditure funded from capital under statute	7,168	0					(7,168)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,273	0					(3,273)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment	(3,655)	0					3,655
Capital expenditure charged against the General Fund and HRA balances	(5,108)	0					5,108
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(31,422)					31,422	0
Application of grants to capital financing transferred to the Capital Adjustment Account						(32,605)	32,605

		Usable Reserves					
<b>2009/10 Comparative Figures</b>		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,457)	0	2,457				0
Use of the Capital Receipts Reserve to finance new capital expenditure			(2,545)				2,545
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	264	0	(264)				0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			352				(352)
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve</b>							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0						0
<b>Adjustment primarily involving the Major Repairs Reserve:</b>							
Reversal of Major Repairs Allowance credited to the HRA		(4,515)		4,515			0
Use of the Major Repairs Reserve to finance new capital expenditure				(4,588)			4,588
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0						0

Usable Reserves						
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>2009/10 Comparative Figures</b>						
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	22,420	118				(22,538)
Employer's pensions contributions and direct payments to pensioners payable in the year	(19,921)	(139)				20,060
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	572					(572)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,171	0				(1,171)
<b>Total Adjustments</b>	<b>8,872</b>	<b>(16,948)</b>	<b>0</b>	<b>(73)</b>	<b>(1,183)</b>	<b>9,332</b>

## 7. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11:-

	Balance at 1 April 2009	Transfers Out. 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out. 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund:</b>							
General Fund Balances	13,428	(4,272)	0	9,156	(1,613)	6	7,549
Balances held by schools under a scheme of delegation	5,998	(353)	0	5,645	0	3,759	9,404
Earmarked Reserves:-							
- Insurance Fund	4,670	(640)	133	4,163	(100)	143	4,206
- Revenue Reserve for Financing Capital Expenditure	3,176	(2,358)	884	1,702	(167)	390	1,925
- General Pooled Reserve	152	0	0	152	0	1,663	1,815
- Renewals and Repairs Fund	1,005	(1,001)	0	4	0	114	118
- Catering Reserves	332	(57)	0	275	0	163	438
- Invest to Save Reserve	1,679	(181)	131	1,629	(855)	415	1,189
- Sustainable Investment Fund	44	(26)	307	325	0	4	329
- Costs Associated with Efficiency Programme	200	0	0	200	0	0	200
- Revenue Grants Unapplied	1,287	0	1,972	3,259	(3,064)	3,323	3,518
- Redundancy Costs	250	0	0	250	0	1,500	1,750
- Transforming Social Care	500	0	500	1,000	0	0	1,000
- Strategic Priorities Investment Reserve	1,302	0	138	1,440	(247)	0	1,193
- Extreme Weather Reserve	0	(378)	628	250	(122)	176	304
- Freedom Pass Equalisation	0	0	400	400	(400)	400	400
- Free Swimming Reserve	30	(30)	0	0	0	0	0
- Be More Active Reserve	15	(15)	0	0	0	0	0
- Boxing Pavilion Reserve	38	(38)	0	0	0	0	0
- Olympic Forum Reserve	44	(6)	0	38	(14)	0	24
- Treasury & Capital Management Programme	0	0	527	527	0	133	660
- Innovation Fund	0	0	0	0	0	100	100
<b>Total</b>	<b>33,950</b>	<b>(9,355)</b>	<b>5,620</b>	<b>30,215</b>	<b>(6,582)</b>	<b>12,289</b>	<b>35,922</b>
<b>HRA:</b>							
Housing Revenue Account	1,458	(708)	73	823	(497)	0	326
Heating Reserve	23	0	391	414	0	107	521
<b>Total</b>	<b>1,481</b>	<b>(708)</b>	<b>464</b>	<b>1,237</b>	<b>(497)</b>	<b>107</b>	<b>847</b>

## **Additional information on reserves**

### **General Fund balance**

The Council's policy is that a General Fund balance of at least 5% of net General Fund expenditure (excluding the schools budget) are necessary to provide a sound level of prudence.

The current balance of £7.549m equates to 5.4% of net General Fund expenditure (excluding the schools budget).

### **Earmarked Reserves**

- The Insurance Fund provides cover for certain uninsured losses, including:-
  - the first £150,000 of third party and employee claims;
  - the first £100,000 of property losses

The Fund also provides for risk management initiatives across the Council.

The reserve would also need to cover claims against policies taken out with Municipal Mutual Insurance (MMI) prior to 1 April 1993. MMI went into "run-off" in September 1992 and subsequently established a scheme of arrangement whereby claims paid since January 1994 will be subject to total or partial clawback in the event of insolvency. Whilst there is a potential for clawback, no specific sum has been set aside as a solvent "run-off" is expected.

- The Revenue Reserve for Financing Capital Expenditure has been established for the purpose of financing capital expenditure in future years.
- The General Pooled Reserve is in place to act as a general one-off contingency.
- The Renewals and Repairs Fund is maintained primarily for Information Technology investment.
- The Catering Reserves comprise two separate accounts:
  - Catering Reserve Account (£240,174) representing the accumulated surplus from the Schools and Welfare Trading Account, and;
  - School Meals Delegated Funds (£197,758) representing the surplus made by schools within the Catering DSO and which is ringfenced for future use by schools.
- The Invest to Save Reserve was originally established to provide upfront investment to schemes and projects where the funding can be demonstrated to lead to improved outcomes/efficiencies for Council services and is now funding for the management of the Smarter Services Sutton programme.
- Sustainable Investment Fund has been established to finance energy and carbon reduction measures where financial payback will be within 3 to 5 years.
- The Revenue Grants Unapplied reserve is in place to record grants received in year for revenue purposes but for which the expenditure will occur in future years.

- The Redundancy Costs Reserve has been established for future redundancy costs anticipated from the continuing drive to secure cost reductions in light of recent government grant settlements.
- The Transforming Social Care Reserve was established to provide investment to develop processes and infrastructure to support the delivery of social care.
- The Strategic Priorities Investment Reserve will be allocated in accordance with members future strategic priorities.
- Extreme Weather Reserve has been created to deal with additional expenditure arising from extreme weather conditions.
- Freedom Pass equalisation Reserve will be used to smooth costs arising from changes in the way concessionary fares costs are allocated across boroughs.
- The Free Swimming Reserve was used to provide free swimming to those people of 60 years and over at Cheam and Westcroft Leisure Centres. This was a two year project funded by Sutton & Merton Primary Care Trust and Department of Culture, Media & Sport.
- The Be More Active Reserve was a three year project to increase the participation of residents aged 16 and over in sports and physical activity.
- The Boxing Pavilion Reserve was part of a three year project that relocated Rosehill Boxing Club to Sutton Arena Pavilion. It was funded by Safer Sutton, the London Marathon Trust and Better Public Places.
- The Olympic Forum Reserve will be used to deliver a series of events and activities in the run up to the 2012 London Olympics.
- The Treasury and Capital Programme Management Reserve was established to provide cover against any potential loss on the frozen Heritable Bank deposits and to support the capital programme in the future.
- The Innovation Fund is a sum set aside to be used to support innovative ideas for service improvements and efficiency in the Council.

### **Housing Revenue Account**

- The HRA Reserve balance carried forward at 31 March 2011 of £325,663 is recognised as having fallen to a lower than satisfactory level. The budgets for 2011/12 have been set with a view of increasing this working balance to £900,000 by 31 March 2012 with further plans in place to raise the balance to a more prudent level over the next three years.
- The Heating Reserve of £521,258 holds the net balance of tenants' charges and recoveries for heating and hot water. It will be used to help smooth future volatility

## 8. Other Operating Expenditure

	2009/10 £'000	2010/11 £'000
1,319	Levies paid to Other Local Public Authorities	1,302
264	Payment to the Government Housing Capital Receipts Pool	452
1,422	Gains / losses on the disposal of non-current assets	(40)
(601)	Surplus on Trading Undertakings not included in Net Cost of Services	(9)
<b>2,404</b>	<b>TOTAL</b>	<b>1,705</b>

## 9. Financing and Investment Income and Expenditure

	2009/10 £'000	2010/11 £'000
3,357	Interest payable and similar charges	3,387
13,162	Pension interest costs and expected return on pension assets	10,472
(2,182)	Interest receivable and similar income	(989)
(695)	Income and expenditure in relation to investment properties and changes in their fair value	204
0	Other investment income	0
<b>13,642</b>	<b>TOTAL</b>	<b>13,074</b>

## 10. Taxation and Non Specific Grant Incomes

	2009/10 £'000	2010/11 £'000
(84,171)	• Council Tax income	(85,265)
(43,658)	• Non domestic rates	(47,606)
(18,844)	• Non-ringfenced government grants	(17,813)
(31,422)	• Capital grants and contributions	(44,201)
<b>(178,095)</b>	<b>TOTAL</b>	<b>(194,885)</b>

## 11. Property, Plant and Equipment

Movement on balances.

<b>Movements in 2010/11</b>	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
<b>Cost or valuation</b>	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2010</b>	<b>406,232</b>	<b>352,623</b>	<b>10,163</b>	<b>25,742</b>	<b>1,415</b>	<b>35,317</b>	<b>12,422</b>	<b>843,914</b>
Additions	9,603	0	1,040	9,014	182	30,653	0	50,492
Donations	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(5,204)	31,012	0	0	0	0	1,404	27,212
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(127,717)	(5,462)	0	0	0	0	(3,058)	(136,237)
Derecognition - disposal	0	0	0	0	0	0	(228)	(228)
Derecognition – other	(211)	14,148	0	0	(69)	(19,055)	5,116	(71)
Assets reclassified (to)/from Held for Sale	(157)	(3,795)	(118)	0	0	0	(5,341)	(9,411)
Other movements in cost or valuation	0	0	0	0	0	0	0	0
<b>At 31 March 2011</b>	<b>282,546</b>	<b>388,526</b>	<b>11,085</b>	<b>34,756</b>	<b>1,528</b>	<b>46,915</b>	<b>10,315</b>	<b>775,671</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2010</b>	<b>(18,134)</b>	<b>(13,364)</b>	<b>(4,500)</b>	<b>(16,253)</b>	<b>(261)</b>	<b>0</b>	<b>0</b>	<b>(52,512)</b>
Depreciation Charge								
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	0	0
Depreciation written out to the surplus/deficit on the provision of services	(4,667)	(4,707)	(1,504)	(9,014)	0	0	(138)	(20,030)
Impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the surplus/deficit on the provision of services	0	0	0	0	0	0	0	0
Derecognition - disposal	(2,123)	0	0	0	0	0	0	(2,123)
Derecognition - other	0	616	109	0	0	0	27	752
Other movements in depreciation and impairments	0	0	0	0	0	0	0	0
<b>At 31 March 2011</b>	<b>(24,924)</b>	<b>(17,455)</b>	<b>(5,895)</b>	<b>(25,267)</b>	<b>(261)</b>	<b>0</b>	<b>(111)</b>	<b>(73,913)</b>
<b>Net Book Value</b>								
<b>At 31 March 2010</b>	<b>388,098</b>	<b>339,259</b>	<b>5,663</b>	<b>9,489</b>	<b>1,154</b>	<b>35,317</b>	<b>12,422</b>	<b>791,402</b>
<b>At 31 March 2011</b>	<b>257,622</b>	<b>371,071</b>	<b>5,190</b>	<b>9,489</b>	<b>1,267</b>	<b>46,915</b>	<b>10,204</b>	<b>701,758</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Comparative Movements in 2009/10

	Council Dwellings	Other Land & Buildings *	Vehicles, Plant, Furniture & Equipment *	Infrastructure	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
<b>Cost or valuation</b>	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2009</b>	<b>372,116</b>	<b>356,282</b>	<b>9,273</b>	<b>16,359</b>	<b>801</b>	<b>28,144</b>	<b>12,055</b>	<b>795,030</b>
Additions	9,793	0	2,648	9,383	614	21,407	0	43,845
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,203	59	0	0	0	0	0	5,262
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	19,247	(14,606)	0	0	0	0	(691)	3,950
Derecognition - disposal	(127)	(275)	(1,758)	0	0	0	(1,513)	(3673)
Derecognition - other	0	0	0	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0	(500)	(500)
Other movements in cost or valuation	0	11,163	0	0	0	(14,234)	3,071	0
<b>At 31 March 2010</b>	<b>406,232</b>	<b>352,623</b>	<b>10,163</b>	<b>25,742</b>	<b>1,415</b>	<b>35,317</b>	<b>12,422</b>	<b>843,914</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2009</b>	<b>(11,371)</b>	<b>(8,757)</b>	<b>(3,268)</b>	<b>(6,870)</b>	<b>(261)</b>	<b>0</b>	<b>0</b>	<b>(30,527)</b>
Depreciation Charge	(4,515)	(4,608)	(1,632)	(9,383)	0	0	0	(20,138)
Depreciation written out to the Revaluation Reserve	0	1	400	0	0	0	0	401
Depreciation written out to the surplus/deficit on the provision of services	0	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
Impairment losses/ (reversals) recognised in the surplus/deficit on the provision of services	0	0	0	0	0	0	0	0
Derecognition - disposal	0	0	0	0	0	0	0	0
Derecognition - other	(2,248)	0	0	0	0	0	0	(2,248)
Other movements in depreciation and impairments	0	0	0	0	0	0	0	0
<b>At 31 March 2010</b>	<b>(18,134)</b>	<b>(13,364)</b>	<b>(4,500)</b>	<b>(16,253)</b>	<b>(261)</b>	<b>0</b>	<b>0</b>	<b>(52,512)</b>
<b>Net Book Value</b>								
<b>At 31 March 2009</b>	<b>388,098</b>	<b>339,259</b>	<b>5,663</b>	<b>,489</b>	<b>,154</b>	<b>35,317</b>	<b>12,422</b>	<b>791,402</b>
<b>At 31 March 2010</b>	<b>360,745</b>	<b>347,525</b>	<b>6,005</b>	<b>9,489</b>	<b>540</b>	<b>28,144</b>	<b>12,056</b>	<b>764,504</b>

\* Please note that following comprehensive review of the non-current asset balances as part of IFRS restatement the split between cost and accumulated depreciation on 'Other Land and Buildings' and 'Vehicles, Plant and Equipment' has been adjusted by £213k and £25k respectively.

### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council dwellings - is deemed to be equal to the Major Repairs Allowance (MRA);
- Other Land and Buildings – 50 years;
- Vehicles, plant, furniture and equipment - 4 to 16 years;
- Infrastructure – any expenditure which is not considered to enhance the asset is depreciated in full in the year it is incurred;
- Community Assets - any expenditure which is not considered to enhance the asset is depreciated in full in the year it is incurred, and;
- Surplus Assets – is calculated as per its previous operational classification.

### Capital Commitments

At 31 March 2011, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2010/11 and future years are budgeted to cost £69.6 million. Similar commitments at 31 March 2010 were £83.5 million. The major commitments are:-

	<b>Expenditure to 31 March 2011</b>	<b>Estimated Total Cost</b>
	£'000	£'000
Stanley Park High School (BSF Grant)	25,161	47,836
Durand Close Housing Project*	8,352	12,174
Sutton Life Centre	8,326	8,649
Anton Crescent Learning Disability Day Centre	4,246	4,333
Town Centre Regeneration	3,372	3,786
Wallington Integrated Transport Package	1,167	1,906
Tweedle Co-location	836	2,512
Wallington High School Sports Hall	716	1,310
Westcroft Leisure Centre Development Project	46	10,800

\* Council element of larger regeneration scheme

### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured as fair value is revalued at least every 5 years. All valuations were carried out internally. The latest valuation was carried out as at 1 April 2010.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors under the direction of the Council's Executive Head of Construction and Property

Council dwellings have been included on the basis of the lower of net current replacement cost and net realisable value. Council dwellings reflect vacant possession value adjusted to account for their status as social housing. For 2010/11 the social housing factor for London was reduced from 37% to 25%.

Infrastructure and community assets have been included at historical cost.

The authority is not aware of any material change in the value of assets that have not been revalued in the year.

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total £'000
Carried at historical cost	0	0	5,190	9,489	1,267	46,915	0	62,861
Valued at fair value as at:								
31 March 2010	257,622	173,431	0	0	0	0	0	431,053
31 March 2009	0	93,264	0	0	0	0	5,808	99,072
31 March 2008	0	44,293	0	0	0	0	0	44,293
31 March 2007	0	34,606	0	0	0	0	4,145	38,751
31 March 2006	0	25,477	0	0	0	0	251	25,728
<b>Total Cost or Valuation</b>	<b>257,622</b>	<b>371,071</b>	<b>5,190</b>	<b>9,489</b>	<b>1,267</b>	<b>46,915</b>	<b>10,204</b>	<b>701,758</b>

All council dwellings are revalued every year, whilst other land and buildings are revalued over a 5 year rolling programme.

## 12. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:-

	2009/10 £'000	2010/11 £'000
Rental income from investment properties	1,841	1,871
Direct operating expenses arising from investment property	(90)	(70)
<b>Net gain / (loss)</b>	<b>1,751</b>	<b>1,801</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2009/10 £'000	2010/11 £'000
Balance at the start of the year	27,805	28,490
Additions	0	0
Disposals	0	0
Net gains/(losses) from fair value adjustments (Revaluations and Impairments)	685	(204)
Transfers (Reclassifications)	0	70
<b>Balance at the end of the year</b>	<b>28,490</b>	<b>28,356</b>

## 13. Intangible Assets

This shows the capital expenditure on intangible assets. It is the Council's policy to write off such expenditure in the year in which it is incurred.

2010/11	Balance at 1 April 2010	Expenditure	Written Out	Balance at 31 March 2011
	£'000	£'000	£'000	£'000
<b>Intangible Assets</b>				
Computer Software				
Licences & Installation				
Costs	0	925	(925)	0
Health & Safety Works	0	619	(619)	0
Project Feasibility Works	0	1,117	(1,117)	0
<b>TOTAL £'000</b>	<b>0</b>	<b>2,661</b>	<b>(2,661)</b>	<b>0</b>

2009/10	Balance at 1 April 2009	Expenditure	Written Out	Balance at 31 March 2010
	£'000	£'000	£'000	£'000
<b>Intangible Assets</b>				
Computer Software				
Licences & Installation				
Costs	0	1,727	(1,727)	0
Health & Safety Works	0	660	(660)	0
Project Feasibility Works	0	1,521	(1,521)	0
<b>TOTAL £'000</b>	<b>0</b>	<b>3,908</b>	<b>(3,908)</b>	<b>0</b>

## 14. Financial Instruments

Items a) and b) form supporting notes to figures shown in the balance sheet. The revised reporting format has been used to conform with the Code of Practice on Local Authority Accounting in the UK.

### a) Financial Instruments Balances

Accounting regulations require financial instruments (investments and borrowing) shown on the balance sheet to be further analysed into various defined categories. The investments and borrowing disclosed in the balance sheet are made up of the following categories of 'financial instruments'.

	Long Term		Current	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£'000	£'000	£'000	£'000
<b>Investments</b>				
Loans and receivables	0	1,456	35,861	38,261
<b>Total Investments</b>	<b>0</b>	<b>1,456</b>	<b>35,861</b>	<b>38,261</b>
<b>Debtors</b>				
Loans and Receivables	1,584	1,177	0	0
Financial assets carried at contract amounts	0	0	30,266	35,537
<b>Total Debtors</b>	<b>1,584</b>	<b>1,177</b>	<b>30,266</b>	<b>35,537</b>
<b>Borrowings</b>				
Financial liabilities carried at amortised cost	64,715	64,794	1,027	1,085
<b>Total Borrowings</b>	<b>64,715</b>	<b>64,794</b>	<b>1,027</b>	<b>1,085</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amount	0	0	46,587	42,711
<b>Total Creditors</b>	<b>0</b>	<b>0</b>	<b>46,587</b>	<b>42,711</b>

## Notes:

1. £1.027 million of the Council's debt to the Public Works Loan Board is scheduled for redemption before 31 March 2012 and has therefore been classified as current liabilities.
2. Borrowings include three Lenders Option, Borrowers Option (LOBO) Market Loans totalling £15.3 million with maturity dates between 2042-2077 which have all entered their secondary period. This gives the lender the option to increase the interest rate. At pre-defined intervals the Council as borrower would then have the option to decline the increase and repay without penalty or accept the increase. The lender has not exercised this option to date on these three loans.
3. The Code of Practice requires authorities to include the accrued interest associated to both borrowing and investments with the carrying amount on the balance sheet. New guidance for 2009/10 also requires any accrued interest to be shown separately in current assets / liabilities where the payments / receipts are due within one year.
4. Investments include two deposits with Heritable Bank, which have been subject to an impairment charge in 2008/09. The amounts in the table above reflect the adjusted amortised cost for these assets as at 31 March 2011. Due to a change in accounting guidance any amounts that are due to be recovered in the period beyond one year are now included within long term investments. Additional information on this item is provided in the credit risk section of this disclosure note.

**b) Financial Instruments Adjustment Account**

No debt restructuring was carried out in 2010/11 so there are no debt restructuring adjustments to this account to report. The Council has chosen not to apply the DCLG statutory override to deal with any of the impairment charge from the investments made with Heritable Bank (see note 39).

**c) Gains and Losses on Financial Instruments**

The table below shows interest paid on existing borrowing in year (interest expense) and interest received on investments (interest income). The increase in the estimated recovery of funds from Heritable Bank is also shown (see note 39 for more information).

	<b>Financial Liabilities</b>		<b>Financial Assets</b>		
	Liabilities measured at amortised cost £000	Loans and receivables £000	Available-for-sale assets £000	Fair value through I&E £000	
Interest Expense	(3,237)		0	0	0
Interest Income	0	515	0	0	0
Amounts recycled to the Surplus or Deficit on the provision of Services after impairment		(4)	0	0	0
Net gain / (loss) for the year	(3,237)	511	0	0	0

**Fair Value and Reporting on Risks Arising From Financial Instruments**

The Council must provide additional disclosure information on the fair value and risks arising from financial instruments. This information does not support or change figures included in the Balance Sheet or Income and Expenditure Account. It illustrates the impact for a number of instruments used to assess and measure risk.

**d) Fair Value of Assets and Liabilities carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- for loans from the Public Works Loan Board and other loans payable, borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- no early repayment or impairment is recognised;
- where an instrument has a maturity of less than 12 months or is a trade or

- other receivable the fair value is taken to be the carrying amount or the billed amount, and;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The calculated fair value of each class of financial asset and liability which are carried in the balance sheet are shown in the tables below. The prior year fair values as at 31 March 2010 are also provided for comparison.

#### Fair Value of Liabilities Carried at Amortised Cost

	31 March 2011		31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB - maturity	50,075	48,586	50,082	52,339
PWLB - annuity	200	199	310	317
PWLB – EIP	0	0	20	19
LOBOs	15,467	16,082	15,467	16,712
<b>Financial liabilities</b>	<b>65,742</b>	<b>64,867</b>	<b>65,879</b>	<b>69,387</b>
<b>Long Term Creditors</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The fair value is less than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the balance sheet date.

#### Fair Value of Assets Carried at Amortised Cost

	31 March 2011		31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Deposits with banks and building societies	35,861	35,861	39,731	39,840
<b>Financial assets</b>	<b>35,861</b>	<b>35,861</b>	<b>39,731</b>	<b>39,840</b>
<b>Long Term Debtors</b>	<b>1,584</b>	<b>1,584</b>	<b>1,177</b>	<b>1,177</b>

The fair value is the same as the carrying value at March 2011 because the investments held are short term and their interest rates are equal to the rates available for similar loans at the balance sheet date.

The fair value of long term debtors is assumed to be the same as the carrying amount since there is no traded market for such receivables and liabilities and it is therefore not possible to provide equivalent market rates.

## 15. Inventories

As at 31 March 2009	Purchases	Recognised as an expense in the year	Written off balances	As at 31 March 2010				Purchases	Recognised as an expense in the year	Written off balances	As at 31 March 2011
						£'000	£'000	£'000	£'000	£'000	
1 36	14 11	(14) (13)	0 0	1 34	Salt/grit Libraries	1	80	(79)	0	0	2
8 44	9 0	0 (1)	0 0	17 43	Merchandising Stationary & Paper Postal Franking Machine	34	0	0	0	0	34
47	138	(138)	(1)	46	Vehicle and Plant workshop - parts	17	37	(39)	0	0	15
33	757	(764)	0	26	Schools and Welfare Catering -Provisions	43	186	(175)	0	0	54
22	289	(132)	(22)	157	Waste Service – Consumables	46	151	(150)	0	0	47
34	501	(497)	0	39	Fuel oil	26	781	(771)	0	0	36
17	0	(1)	0	16	Education I.T. Stock	157	211	(212)	0	0	156
7	8	(6)	0	9	Other	39	554	(547)	(6)	0	40
<b>249</b>	<b>1,728</b>	<b>(1,566)</b>	<b>(23)</b>	<b>388</b>	<b>TOTAL</b>	<b>388</b>	<b>2,016</b>	<b>(1,997)</b>	<b>(6)</b>	<b>0</b>	<b>401</b>

## 16. Debtors

These are short-term debts consisting of amounts due from Government, other local authorities and amounts due for goods and services provided as at 31 March. These balances are net of the bad debt provision shown below.

As at 31 March 2010		As at 31 March 2011
£'000		£'000
9,682	Central Government bodies	5,817
6,497	Other Local Authorities	5,408
1,798	NHS bodies	734
1,050	HRA Tenants	989
16,510	Other entities and individuals	17,318
<b>35,537</b>	<b>Total</b>	<b>30,266</b>

The following provisions have been included in the accounts for potential bad debts at 31 March.

As at 31 March 2010		AS AT 31 March 2011
£'000		£'000
836	HRA Tenants	799
4,227	Other entities and individuals	4,501
<b>5,063</b>	<b>Total</b>	<b>5,300</b>

## 17. Cash and cash equivalents

The balance of cash and cash equivalents is made up of the following elements.

As at 31 March 2010		As at 31 March 2011
£'000		£'000
116	Cash held by the authority	123
(961)	Bank current accounts	1,487
<b>(845)</b>	<b>Total</b>	<b>1,610</b>

## 18. Creditors

These consist of amounts owed to Government and other public bodies and all unpaid sums for goods and services provided as at 31 March.

As at 31 March 2010		As at 31 March 2011
£'000		£'000
4,364	Central Government bodies	9,182
5,315	Other Local authorities	6,534
23	NHS Bodies	2,243
33,009	Other entities and individuals	28,628
<b>42,711</b>	<b>Total</b>	<b>46,587</b>

## 19. Provisions

Provisions have been established for the following purposes:

	Balance b/fwd 1 April 2010 £'000	Additional provisions made in 2010/11 £'000	Amounts used in 2010/11 £'000	Unused amounts reversed in 2010/11 £'000	Balance c/fwd 31 March 2011 £'000
<b>Current Provisions</b>					
(a) Employee Accumulated Absences	5,984	5,462	(5,984)	0	5,462
<b>Non-Current Provisions</b>					
(b) Insurance Claims	1,386	0	0	0	1,386
(c) S117 Reimbursement	230	0	(211)	0	19
(d) Potential Employee Litigation	100	20	0	0	120
(e) Hexagon Provision	0	191	0	0	191
(f) Reablement Refund Provision	0	150	0	0	150
	<b>7,700</b>	<b>5,823</b>	<b>(6,195)</b>	<b>0</b>	<b>7,328</b>

- (a) This is required under IFRS to hold a liability in respect of annual leave which is owed to staff at the year end.
- (b) The Council maintains an insurance provision for claims which are likely or certain to be settled but the timing and amount of which cannot be determined accurately. This has been established to meet claims not covered by our external insurer, including the first £150,000 of 3<sup>rd</sup> party and employee claims and the first £100,000 of property losses. The year end provision was evaluated at £1.386 million.
- (c) A provision of £230,000 was included in the 2009/10 accounts to refund any incorrectly levied charges for aftercare services provided under S117 of the Mental Health Act 1983, following advice from the Ombudsman. Settlements in 2010/11 totalled £210,544. The outstanding provision of £19,000 is considered adequate to cover any remaining potential repayments.
- (d) A provision of £100,000 was included in the 2009/10 accounts to cover several employment related matters which could involve the Council in a financial penalty. An assessment of the number of outstanding cases has been carried out and the provision at 31 March 2011 has been estimated at £120,000.
- (e) A provision of £191,000 has been created in 2010/11 to cover any potential recharge for clients supported by the mental health trust.
- (f) A provision of £150,000 has been established to cover repayment of charges for adult social care reablement.

## 20. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Notes 6 and 7.

## 21. Unusable Reserves

	<b>30 March 2010 Reserve / Balance £'000</b>	<b>30 March 2011 £'000</b>
69,925	Revaluation Reserve	94,959
0	Available for sale Financial Instruments Reserve	0
645,937	Capital Adjustment Account	530,967
(1,436)	Financial Instruments Adjustment Account	(1,352)
254	Deferred Capital Receipts	249
(327,764)	Pensions Reserve	(211,230)
1,074	Collection Fund Adjustment Account	1,256
(5,984)	Accumulated Absences Account	(5,463)
<b>382,006</b>	<b>Total</b>	<b>409,386</b>

### a). Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

<b>2009/10</b>		<b>2010/11</b>
£'000		£'000
<b>61,750</b>	<b>Balance as at 1 April</b>	<b>69,925</b>
8,724	Upward revaluation of assets	32,956
0	Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(5,744)
8,724	Surplus or deficit on revaluation of non current assets not posted to the surplus or deficit on the provision of services	27,212
(172)	Difference between fair value depreciation and historical cost depreciation	(513)
(377)	Accumulated gains on assets sold or scrapped	(1,665)
(549)	Amount written off to the Capital Adjustment account	(2,178)
<b>69,925</b>	<b>Balance at 31 March</b>	<b>94,959</b>

### b). Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Revaluation losses on property plant equipment include a revaluation loss of £120.5m on council dwellings which is the result of the social housing factor for London reducing from 37% to 25%.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

<b>2009/10</b>	<b>Capital Adjustment Account</b>	<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
<b>629,180</b>	<b>Balance at 1 April</b>	<b>645,937</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(14,911)	Charge for depreciation and impairment of non-current assets	(22,154)
(6,997)	Revaluation losses on Property, Plant and Equipment	(136,238)
(3,908)	Amortisation of intangible assets	(2,661)
(7,168)	Revenue expenditure funded from capital under statute	(7,172)
(3,273)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,947)
(36,257)		(170,172)
549	Adjusting amounts written out of the Revaluation Reserve	2,178
(35,708)	Net written out amount of the cost of non-current assets consumed in the year	(167,994)
	Capital financing applied in the year:	
2,545	Use of the Capital Receipts Reserve to finance new capital expenditure	1,523
7,833	Use of the Major Repairs Reserve to finance new capital expenditure	1,499
30,828	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	41,940
1,828	Application of grants to capital financing from the Capital Grants Unapplied Account	3,261
3,655	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	3,980
5,081	Capital expenditure charged against the General Fund and HRA balances	1,025
51,771		53,228
695	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(204)
<b>645,937</b>	<b>Balance at 31 March</b>	<b>530,967</b>

### c). Financial Instruments Adjustments Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Authority uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at 31 March 2011 will be charged to the General Fund over the next 31 years.

2009/10		2010/11	
	£'000		£'000
(1,521)	<b>Balance as at 1 April</b>		(1,436)
0	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	
85	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	84	
0	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	84	
<b>(1,436)</b>	<b>Balance at 31 March</b>		<b>(1,351)</b>

### d). Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve

therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2009/10</b> £'000		<b>2010/11</b> £'000
(175,400)	<b>Balance at 1 April</b>	(327,764)
(149,886)	Actuarial gains or (losses) on pension assets and liabilities	62,542
(22,538)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	34,261
20,060	Employers pension contributions and direct payments to pensioners payable in the year.	19,731
<b>(327,764)</b>	<b>Balance at 31 March</b>	<b>(211,230)</b>

### e). Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

<b>2009/10</b> £'000		<b>2010/11</b> £'000
232	<b>Balance at 1 April</b>	254
33	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
(11)	Transfer to the Capital Receipts Reserve upon receipt of cash	(5)
<b>254</b>	<b>Balance at 31 March</b>	<b>249</b>

### f). Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

<b>2009/10</b> £'000		<b>2010/11</b> £'000
1,647	<b>Balance at 1 April</b>	1,074
(573)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	182
<b>1,074</b>	<b>Balance at 31 March</b>	<b>1,256</b>

### g). Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

<b>2009/10</b> £'000		<b>2010/11</b> £'000
(4,813)	<b>Balance as at 1 April</b>	(5,984)
4,813	Settlement or cancellation of accrual at the end of the preceding year	5,984
(5,984)	Amounts accrued at the end of the current year	(5,463)
(1,171)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	521
<b>(5,984)</b>	<b>Balance at 31 March</b>	<b>(5,463)</b>

**22. Cash Flow Statement – Reconciliation of Net surplus/ (deficit) on the provision of services to Net cash flows from operating activities.**

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
4,256	Net surplus/ (deficit) on the Provision of Services	(54,894)
	Adjust net surplus or deficit for the Provision of services for non-cash movements	
20,945	Depreciation and impairment	158,596
3,908	Amortisation	2,661
7,675	Increase/ (Decrease) in creditors	2,058
(3,290)	(Increase)/ Decrease in debtors	3,087
(139)	(Increase)/ Decrease in inventories	(13)
2,478	Pension Liability	(53,992)
(354)	Contributions to/ from provisions	(372)
5,514	Carrying amount of non-current assets sold	1,947
487,026	Carrying amount of short term and long term investments sold	567,931
483	Other movements	(3,400)
<b>524,246</b>		<b>678,503</b>
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(31,422)	Capital Grants credited to surplus or deficit on the provision of services	(44,200)
(487,026)	Proceeds from the sale of short and long term investments	(567,931)
(4,072)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,987)
<b>(522,520)</b>		<b>(614,118)</b>
<b>5,982</b>	<b>Total</b>	<b>9,491</b>

**23. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
1,366	Interest received	1,252
(3,261)	Interest Paid	(3,379)
0	Dividends Received	0
<b>(1,895)</b>	<b>Total</b>	<b>(2,127)</b>

## 24. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

<b>2009/10</b>		<b>2010/11</b>
£'000		£'000
(47,580)	Purchase of property, plant and equipment, investment property and intangible assets	(51,240)
(475,417)	Purchase of short term and long term investments	(564,582)
0	Other payments and investing activities	0
4,072	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,956
487,026	Proceeds from short term and long term investments	567,931
23,056	Other receipts from investing activities	38,773
<b>(8,843)</b>	<b>Net cash flows from investing activities</b>	<b>(7,162)</b>

## 25. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

<b>2009/10</b>		<b>2010/11</b>
£'000		£'000
0	Cash receipts of short term and long term borrowing	0
1,005	Other receipts from financing activities	337
(174)	Repayment of short term and long term borrowing	(211)
0	Other payments for financing activities	0
<b>831</b>	<b>Net cash flows from financing activities</b>	<b>126</b>

## 26. Amounts Reported for Resources Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. Decisions about resource allocation are taken by the Authority's Executive on the basis of budget reports analysed across Groups in accordance with their key priorities and policies. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the

Comprehensive Income and Expenditure Statement);

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year, and;
- expenditure on some support services is budgeted for centrally and not charged to groups.

The income and expenditure of the Authority's principal groups recorded in the budget reports for the year is as follows:

<b>Group Information 2010/11</b>	Children, Young People & Learning Services	Adult Social Services and Housing	Chief Executive's and Resources Groups	Environment and Leisure	<b>TOTAL</b>
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(6,984)	(32,801)	(4,660)	(12,063)	(56,508)
Government grants	(182,149)	(8,458)	(86,309)	(1,287)	(278,203)
<b>Total Income</b>	<b>(189,133)</b>	<b>(41,259)</b>	<b>(90,969)</b>	<b>(13,350)</b>	<b>(334,711)</b>
Employee Expenses	92,698	20,709	7,237	25,757	146,401
Other operating expenses	128,108	67,900	87,215	21,171	304,394
Support service recharges	3,994	4,132	2,054	3,958	14,138
<b>Total Operating Expenses</b>	<b>224,800</b>	<b>92,741</b>	<b>96,506</b>	<b>50,886</b>	<b>464,933</b>
<b>Cost of Services</b>	<b>35,667</b>	<b>51,482</b>	<b>5,537</b>	<b>37,356</b>	<b>130,222</b>

<b>Group Information 2009/10 Comparative Figures</b>	Children, Young People & Learning Services	Adult Social Services and Housing	Chief Executive's and Resources Groups	Environment and Leisure	<b>TOTAL</b>
	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(7,866)	(34,457)	(1,225)	(12,923)	(56,471)
Government grants	(173,827)	(8,033)	(80,958)	(1,487)	(264,305)
<b>Total Income</b>	<b>(181,693)</b>	<b>(42,490)</b>	<b>(82,183)</b>	<b>(14,410)</b>	<b>(320,776)</b>
Employee Expenses	85,714	21,735	5,990	26,078	139,517
Other operating expenses	125,730	69,232	80,936	21,821	297,719
Support service recharges	3,705	3,790	1,875	3,670	13,040
<b>Total Operating Expenses</b>	<b>215,149</b>	<b>94,757</b>	<b>88,801</b>	<b>51,569</b>	<b>450,276</b>
<b>Cost of Services</b>	<b>33,546</b>	<b>52,267</b>	<b>6,618</b>	<b>37,159</b>	<b>129,500</b>

### **Reconciliation of Group Income and Expenditure to Cost of Services in Comprehensive Income and Expenditure Statement**

This reconciliation shows how the figures in the analysis of Group income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	<b>2009/10</b> £'000	<b>2010/11</b> £'000
Net expenditure in the Group Analysis	129,500	130,222
Add services not included in main analysis	7,392	5,647
Add amounts not reported to management	17,764	101,722
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	3,137	(2,591)
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>157,793</b>	<b>235,000</b>

### **Reconciliation of Subjective Analysis**

This reconciliation shows how the figures in the analysis of Group income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement

2010/11	Service Analysis	Services not in Main Analysis	Not Reported to Management	Not Included in the Income and Expenditure Statement	Net Cost of Services	Corporate Amounts	<b>TOTAL</b>
	£'000	£'000	£'000	£'000	£'000	£'000	
Fees, charges and other income	(56,508)		(93,886)	1,770	(148,624)		(148,624)
Surplus or Deficit on trading undertakings not in NCS						(9)	(9)
Interest and Investment Income						(989)	(989)
Income from Council Tax						(85,265)	(85,265)
Government grants and contributions	(278,203)		10,880		(267,323)	(109,620)	(376,943)
<b>Total Income</b>	<b>(334,711)</b>	<b>0-</b>	<b>(83,006)</b>	<b>1,770</b>	<b>(415,947)</b>	<b>(195,883)</b>	<b>(611,830)</b>
Employee Expenses	146,401	152	(2,593)		143,960	10,472	154,432
Other operating expenses	304,394	3,995	31,494	(4,361)	335,522		335,522
Support service recharges	14,138	1,355			15,493		15,493
Depreciation, amortisation and impairment		145	155,827		155,972	204	156,176
Interest Payments						3,386	3,386
Precepts and Levies						1,302	1,302
Payments to Housing Capital Receipts Pool						452	452
Gain or loss on Disposal of Fixed Assets						(39)	(39)
<b>Total Expenditure</b>	<b>464,933</b>	<b>5,647</b>	<b>184,728</b>	<b>(4,361)</b>	<b>(650,947)</b>	<b>15,777</b>	<b>666,724</b>
<b>Surplus or deficit on the provision of services</b>	<b>130,222</b>	<b>5,647</b>	<b>101,722</b>	<b>(2,591)</b>	<b>(235,000)</b>	<b>(180,106)</b>	<b>54,894</b>

2009/10 Comparative figures	Service Analysis	Services not in Main Analysis	Not Reported to Management	Not Included in the Income and Expenditure Statement	Net Cost of Services	Corporate Amounts	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges and other income	(56,471)		(52,259)	1,768	(106,962)		(106,962)
Surplus or Deficit on trading undertakings not in NCS						(601)	(601)
Interest and Investment Income						(2,877)	(2,877)
Income from Council Tax						(84,171)	(84,171)
Government grants	(264,305)		8,299		(256,006)	(93,924)	(349,930)
<b>Total Income</b>	<b>(320,776)</b>	<b>0-</b>	<b>(43,960)</b>	<b>1,768</b>	<b>(362,968)</b>	<b>(181,573)</b>	<b>(544,541)</b>
Employee Expenses	139,517	320	(8,972)		130,865	13,162	144,027
Other operating expenses	297,719	4,059	30,159	1,369	333,306		333,306
Support service recharges	13,040	3,013			16,053		16,043
Depreciation, amortisation and impairment			40,537		40,537		40,537
Interest Payments						3,357	3,357
Precepts and Levies						1,319	1,319
Payments to Housing						264	264
Capital Receipts Pool							
Gain or loss on Disposal of Fixed Assets						1,422	1,422
<b>Total Expenditure</b>	<b>450,276</b>	<b>7,392</b>	<b>61,724</b>	<b>1,369)</b>	<b>520,761</b>	<b>13,558</b>	<b>540,285</b>
<b>Surplus of deficit on the provision of services</b>	<b>129,500</b>	<b>7,392</b>	<b>17,764</b>	<b>3,137</b>	<b>157,793</b>	<b>(162,049)</b>	<b>(4,256)</b>

## 27. Surplus on Trading Undertakings not Included in Net Cost of Services

The Authority has established 3 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the authority or other organisations. Welfare Catering ceased operating as a trading account in 2008/09. Details on the trading performance of these Revenue Trading Accounts are shown below:

		2008/09 £'000	2009/10 £'000	2010/11 £'000
Fleet Service	Turnover	4,706	4,255	3,852
	Expenditure	4,662	4,255	3,744
	(Surplus)/Deficit	(44)	0	(108)
Schools Catering	Turnover	2,545	2,687	2,835
	Expenditure	2,505	2,691	2,710
	(Surplus)/Deficit	(40)	4	(125)
Welfare Catering	Turnover	25	-	-
	Expenditure	22	-	-
	(Surplus)/Deficit	(3)	-	-
Internal Audit	Turnover	618	662	626
	Expenditure	587	588	626
	(Surplus)/Deficit	(31)	(74)	0
<b>Net (Surplus)/Deficit on Trading Operations</b>		<b>(118)</b>	<b>(70)</b>	<b>(233)</b>

In addition the Council incurred a deficit of £224k (£530k Surplus in 2009/10) from other trading activities accounted for in Other Operating Expenditure. These principally comprise of expenditure and income from commercial properties, including industrial estates.

<b>2009/10</b>	<b>2010/11</b>
<b>£'000</b>	<b>£'000</b>
(70)	Net Surplus on Trading Operations
(531)	Net (Surplus)/Deficit on Other Trading Operations included in Other Operating Expenditure
<b>(601)</b>	<b>Net surplus credited to Other Operating Expenditure</b>
	<b>(9)</b>

## 28. Pooled Budgets with NHS Bodies

Joint working arrangements between NHS bodies and local authorities operate under Section 75 of the NHS Act 2006. An integrated Community Equipment Service has been established between the Council and Sutton and Merton Primary Care Trust (PCT) to provide community based equipment for people with disabilities.

<b>2009/10</b>	<b>2010/11</b>
<b>£'000</b>	<b>£'000</b>
	Income
(357)	London Borough of Sutton
(407)	Sutton and Merton PCT
<b>(764)</b>	<b>(739)</b>
	Expenditure
396	Equipment and Adaptations
389	Other Costs
<b>785</b>	<b>739</b>
<b>21</b>	<b>Net Deficit/(Surplus) for the Year</b>
(21)	Deficit/ (Surplus) brought forward 1 April
0	Funded by London Borough of Sutton
<b>0</b>	<b>Deficit/(Surplus) Carried Forward 31 March</b>
	<b>0</b>

In addition joint working arrangements between the Council and Sutton and Merton PCT exist to provide services for people with learning disabilities. Expenditure for both the Council and the Sutton and Merton PCT in 2010/11 totalled £30.9m.

## 29. Members Allowances

The Authority paid the following amounts to members of the council during the year:

2009/10		2010/11	
£'000		£'000	
893	Allowances	903	
1	Expenses	1	
<b>894</b>	<b>Total</b>	<b>904</b>	

## 30. Remuneration of Senior Staff

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £5,000 were:-

2009/10		Remuneration Band	2010/11	
Schools	Non-Schools	£	Schools	Non-Schools
Number of Employees				Number of Employees
63	28	50,000 - 54,999	64	28
36	20	55,000 - 59,999	49	23
29	16	60,000 - 64,999	32	17
15	18	65,000 - 69,999	23	14
6	5	70,000 - 74,999	11	13
6	2	75,000 - 79,999	3	6
3	2	80,000 - 84,999	6	3
4	1	85,000 - 89,999	2	3
0	12	90,000 - 94,999	3	10
4	3	95,000 - 99,999	3	5
3	1	100,000 - 104,999	1	2
2	2	105,000 - 109,999	1	0
0	0	110,000 - 114,999	1	0
0	2	115,000 - 119,999	0	1
0	0	120,000 - 124,999	0	1
1	0	125,000 - 129,999	1	1
1	2	130,000 - 134,999	0	1
0	0	135,000 - 139,999	0	2
0	0	140,000 - 144,999	1	0
0	0	145,000 - 149,999	0	0
0	0	150,000 - 154,999	1	0
0	0	155,000 - 159,999	0	0
0	0	160,000 - 164,999	0	0
0	1	165,000 - 169,999	0	0
<b>173</b>	<b>115</b>	<b>Total</b>	<b>202</b>	<b>130</b>

**Senior Officers Emoluments where the salary is £150,000 or more per year**

Salary, fees and allowances £	2009/10 Employers pension contributions £	Total £	Chief Officers	Note	Salary, fees and allowances £	2010/11 Employers pension contributions £	Total £
168,261	35,981	204,242	Chief Executive – Paul Martin	1&2	92,303	19,732	112,035
130,831	27,849	158,680	Interim Chief Executive – Ian Birnbaum	1	137,909	29,416	167,325
n/a	n/a	n/a	Chief Executive – Niall Bolger (current)	1	4,619	993	5,610

**Senior Officers Emoluments where the salary is between £50,000 and £150,000 per year.**

Salary, fees and allowances £	2009/10 Employers pension contributions £	Total £	Chief Officers	N o t e	Salary, fees and allowances £	2010/11 Employers pension contributions £	Total £
109,899	23,426	133,325	Strategic Director – Resources (to May)	2	18,882	4,025	22,907
n/a	n/a	n/a	Strategic Director – Resources (from April)	2	121,260	26,071	147,331
130,469	27,849	158,318	Strategic Director – Adult Social Services and Housing		130,374	27,849	158,223
n/a	n/a	n/a	Strategic Director – Children, Young People and Learning Services (shared position)	3	97,828	20,714	118,542
n/a	n/a	n/a	Strategic Director – Children, Young People and Learning Services (shared position)	3	90,107	19,373	109,480
118,645	26,071	144,716	Strategic Director – Environment and Leisure		129,773	27,849	157,622
92,037	19,788	111,825	Executive Head of Policy and Communications		94,131	17,466	111,597
115,764	24,885	140,649	Executive Head of Human Resources		115,746	24,885	140,631
92,037	9,308	101,345	Executive Head of Community Safety		94,396	18,538	112,934
42,663	9,173	51,836	Executive Head of Legal and Democratic Services		79,489	17,088	96,577

None of the officers above received bonuses or benefits in kind.

A senior employee is a person whose salary is more than £150k per year, or whose salary is at least £50k per year and who is the designated head of paid service (the Chief Executive), a statutory chief officer or a non-statutory chief officer (which includes direct reports to the Chief Executive).

Note 1. The Chief Executive post was held by three different officers in 2010/11. Paul Martin left the Authority at the end of June 2010. Ian Birnbaum held the position of interim Chief Executive for the period July 2010 until March 2011 when the current Chief Executive, Niall Bolger was appointed.

Note 2: The Chief Executive also received £12,304.37 as returning officer for the Parliamentary Elections in May 2010.

Note 3. The Strategic Director – Resources was in post from April 2010. There was a one month overlap between the current and previous Strategic Director – Resources.

Note 3. The Strategic Director – CYPLS is a shared interim position, the amounts shown are the amounts paid to each individual.

### 31. External Audit Costs

The Council incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections:-

<b>2009/10</b>	<b>2010/11</b>
<b>£'000</b>	<b>£'000</b>
215	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor
20	Fees payable to the Audit Commission in respect of statutory inspection
90	Fees payable to the Audit Commission for the certification of grant claims and returns
<b>325</b>	<b>TOTAL</b>
	<b>313</b>

### 32. Education Services – Disclosure of Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families (DCSF) in the form of the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 are as follows:-

	Central Expenditure £'000	Individual Schools Budget (ISB) £'000	Total £'000
Final DSG for 2010/11			132,774
Brought forward from 2009/10			(1,240)
Carry forward to 2011/12 agreed in advance			0
Agreed budgeted distribution in 2010/11	19,206	112,328	131,534
Actual central expenditure	17,596		
Actual ISB deployed to schools		112,328	
Local authority contribution for 2010/11	0	0	0
Carry forward to 2011/12	1,610	0	1,610

In 2010/11, the Council received DSG funding of £132.774 million which included £688,000 for Exceptional Circumstances Grant and this has been credited against the Education service revenue account.

DCSF regulations require the underspending of £1.610 million against the central expenditure element of the grant to be carried forward to 2011/12 to support the

Schools budget in future years.

### 33. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11

2009/10 £'000		2010/11 £'000	£'000
<b>Credited to Taxation and Non Specific Grant Income</b>			
<b>10,077</b>			
8,300	- Revenue Support Grant	6,913	
467	- Area Based Grant	10,900	
43,658	- Housing Planning Delivery Grant	0	
	- Redistributed National Non-Domestic Rate	47,606	
<b>62,502</b>			<b>65,419</b>
<b>Capital Grants and Contributions</b>			
11,297	- Standards Fund	26,150	
0	- My Place Lottery	2,096	
1,815	- Children's Centre Grant	1,433	
3,060	- Mayors Grant	6,465	
29	- Contaminated Land & Air Quality	326	
921	- Disabled Facilities	550	
646	- Coldbusters and Empty Properites	707	
1,822	- Housing Associations	863	
1,159	- Leaseholder Contributions	590	
0	- PCT grants	2,785	
526	- Playbuilder Grants	593	
7,774	- Durand Recycled Grant	0	
2,373	- Other Capital Grants and Contributions	1,642	
<b>31,422</b>			<b>44,200</b>
<b>93,924</b>			<b>109,619</b>
<b>Credited to Services</b>			
<b>Revenue Grants</b>			
125,933	- Dedicated Schools Grant	132,744	
21,727	- Learning and Skills Council	22,280	
15,284	- Standards Fund and Schools Standards Grant	18,461	
4,491	- Surestart	5,487	
169	- Asylum Seekers	102	
3,667	- Supporting People	0	
16,189	- Rent Rebate Subsidy	16,414	
48,451	- Rent Allowances	53,483	
13,515	- Council Tax Rebates	14,105	
1,585	- Housing Benefit Administration	1,683	
145	- Parenting Support Grant	260	
77	- Think Family Reform	136	
0	- Children's Workforce Development Council	245	
444	- LPSA Reward Grant	0	
0	- Highways Repair Grant	249	
87	- Campus Closure Grant	777	
65	- Stroke Care Grant	87	
160	- Carers Emergency Respite Grant	0	
589	- Social Care Reform Grant	745	
162	- Drug Intervention Programme	146	
219	- Homelessness Grant	256	
<b>252,959</b>			<b>267,660</b>

**346,883****377,279**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned. The balances at the year-end are as follows:

	<b>2010/11</b>
<b>Capital Grants Receipts in Advance</b>	<b>£'000</b>
Standards Fund	25,500
S106 Contributions	571
<b>TOTAL</b>	<b>26,071</b>

## 34. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have limited another party's ability to bargain freely with the Council.

### Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties, (e.g. housing benefit). Details of transactions with government departments are set out in note 33 to the Core Financial Statements.

To comply with this requirement the Strategic Director - Resources has issued a declaration form with guidance notes to members and senior officers. Set out below are details of the declarations made which are material to these accounts.

### Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 29. One member was a Non-Executive Director and one a member of the Professional Executive Committee at Sutton and Merton PCT. One member's wife is the chair of the Trustees of Sutton Carers Centre, The Council paid Sutton Carers Centre £382k during 2010/11.

**The Pension Fund** had an average balance of £8.7 million of surplus cash deposited with the Council during 2010/11. The Council paid the Fund interest of £83,332 on these deposits. The Council charged the Fund £572,000 for expenses incurred in administering the Fund.

Related party transactions with **Sutton Housing Partnership**, a wholly owned subsidiary of the London Borough of Sutton, can be found in the Group Accounts section.

## 35. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note:-

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
101,378	Opening Capital financing requirement	104,530
	Capital Investment	
43,846	- Property, Plant and Equipment	50,493
0	- Investment Properties	0
3,908	- Intangible Assets	2,661
7,168	- Revenue Expenditure Funded from Capital Under Statute	7,172
	Sources of Finance	
(2,545)	- Capital Receipts	(1,521)
(31,432)	- Government grants and other contributions	(45,405)
	- Sums set aside from revenue	
(14,137)	- Direct revenue contributions	(2,322)
(3,655)	- MRP / Loans fund principal	(3,980)
<b>104,531</b>	<b>Closing Capital Financing Requirement</b>	<b>111,628</b>
	Explanation of movements in year	
3,153	- Increase in underlying need to borrowing (supported by government financial assistance)	3,259
	- Increase in underlying need to borrowing (unsupported by government financial assistance)	3,839
<b>3,153</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>7,098</b>

## 36. Authority as Lessee - Operating Leases

During 2010/11 no vehicles, plant or equipment were acquired under operating lease arrangements (acquisitions were funded through contract hire). The following payments were made, and obligations remain outstanding, in respect of operating leases that the Council has previously entered into:

2009/10		2010/11	
	£'000		£'000
204	Total rentals paid under operating leases	99	
	Estimated outstanding obligations		
116	Undischarged at 31 March	25	
<b>320</b>	<b>Total</b>	<b>124</b>	
<b>Expiration of Undischarged Obligations</b>			
The value of annual lease rentals that expire in the following periods:			
92	Not later than one year	25	
12	Later than one year and not later than five years	0	
12	Later than five years	0	
<b>116</b>	<b>Total</b>	<b>25</b>	

## 37. Termination Benefits

The Authority terminated the contracts of a number of employees in 2010/11, incurring redundancy costs of £683k (£281k in 2009/10).

## 38. Defined Benefit Pension Schemes

### a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits under two schemes:

- Teachers employed by the authority are members of the Teachers' Pension Scheme, a defined benefit scheme administered nationally by the Teachers' Pension Agency. It provides teachers with defined benefits upon their retirement, and although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the authority's contribution rates. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees.

The Authority contributes to the scheme at a rate of 14.1% of members' pensionable salaries and in 2010/11 the contribution amounted to £10.3 million (£10.0 million in 2009/10). The Authority is also responsible for a proportion of the annual pension and lump sum for teachers taking early retirement. The cost to the Council in 2010/11 totalled £0.5 million (£0.7m in 2009/10).

- The London Borough of Sutton participates in the Local Government Pension Scheme, a defined benefit scheme based on final pensionable salary. The scheme is a funded scheme meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The valuation of the fund and assessment of employer contribution rates is carried out by an independent actuary. The most recent formal valuation was carried out as at 31 March 2010, and has been updated by the Council's actuary, Hymans Robertson, to take account of the requirements of IAS19 in assessing the liabilities of the Fund as at 31 March 2011 as set out below. Pension Fund regulations require full actuarial valuations to be prepared every three years and the next valuation will be based on the financial position of the fund as at 31 March 2013.

### b) Transactions Relating to Retirement Benefits

Although the benefits earned by employees will not actually be payable until employees retire, the Authority has a commitment to account for such payments at the time the employees earn their future entitlement. The financial statements therefore recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the General Fund balance.

As a result the following transactions have been made in the Income and Expenditure Account and Statement of Movement on the General Fund balance during the year:-

<b>2009/10 £'000</b>	<b>Comprehensive Income and Expenditure Statement</b>	<b>£'000</b>	<b>£'000</b>
9,255	Cost of Services:	16,459	
90	- Current Service Costs	(61,699)	
31	- Past Service Costs/ (Gain)	507	
<b>9,376</b>	<b>- Impact of Settlements and Curtailments</b>		<b>44,733</b>
28,063	Financing and Investment Income and	33,212	
(14,901)	Expenditure:	(22,740)	
<b>13,162</b>	<b>- Interest Cost</b>		<b>10,472</b>
<b>22,538</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>		<b>(34,261)</b>
149,886	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
<b>172,424</b>	<b>Actuarial gains and losses</b>		<b>(62,542)</b>
	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		<b>(98,803)</b>

	Movement in Reserves Statement:	
(22,538)	- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	34,261
	Actual amount charged against the General Fund balance for pensions in the year:	
20,060	- Employers' Contributions Payable to Scheme	19,731

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £154,269k.

### c) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries, with estimates for the Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The main assumptions used by the actuary in calculations have been:-

	<b>As at 31 March 2011</b>
	%
Rate of Inflation	2.8
Rate of Increase in Salaries	5.1
Rate of Increase in Pensions	2.8
Rate of Return on Assets	6.7
Rate for Discounting Scheme Liabilities	5.5
Take-Up of Option to Convert Annual Pension into Retirement Lump Sum	25
<b>Mortality Assumptions</b>	<b>Years</b>
Longevity at 65 for Current Pensioners – Men	21.0
Longevity at 65 for Current Pensioners – Women	23.8
Longevity at 65 for Future Pensioners – Men	22.9
Longevity at 65 for Future Pensioners – Women	25.7

The expected return on assets by investment category and the assumed investment structure of the Fund are as follows:-

	<b>As at 31 March 2010</b>	<b>As at 31 March 2011</b>
	<b>%</b>	<b>%</b>
Equities	7.8	7.5
Bonds	5.0	4.9
Property	5.8	5.5
Cash	4.8	4.6
<b>Total Fund</b>	<b>7.0</b>	<b>5.6</b>

	<b>As at 31 March 2010</b>	<b>As at 31 March 2011</b>
	<b>% of Fund</b>	<b>% of Fund</b>
Equities	69	68
Bonds	21	21
Property	6	6
Cash	4	5
<b>Total Fund</b>	<b>100</b>	<b>100</b>

The total fund long term return is the average return across all investments based on the structure properties.

The application of these factors produced an expected return on assets of £22.7 million for 2010/11. However, the Council's actual return was positively affected by the upturn in the financial market during the year and the result for 2010/11 was a gain of £25.6 million.

#### d) Reconciliation of the Present Value of the Scheme Liabilities

	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>
<b>Balance at 1 April</b>	<b>408,076</b>	<b>650,117</b>
Movements in period		
- Current Service Cost	9,255	16,459
- Interest Cost	28,063	33,212
- Contributions by Members	5,320	5,279
- Actuarial Gains and Losses	216,762	(79,608)
- Benefits Paid	(17,480)	(19,462)
- Past Service Costs	31	(61,699)
- Settlements and Curtailments	90	507
<b>Balance at 31 March</b>	<b>650,117</b>	<b>544,805</b>

**e) Reconciliation of the Fair Value of the Scheme Assets**

	2009/10 £'000	2010/11 £'000
<b>Balance at 1 April</b>	<b>232,676</b>	<b>322,353</b>
Movements in period		
- Contributions by Employers	20,060	19,731
- Contributions by Members	5,320	5,279
- Expected Return on Assets	14,901	22,740
- Actuarial Gains and Losses	66,876	(17,066)
- Benefits Paid	(17,480)	(19,462)
<b>Balance at 31 March</b>	<b>322,353</b>	<b>333,575</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £21,781k (2009/10: £79,645k).

**f) Scheme History**

	31 Mar 2007 £'000	31 Mar 2008 £'000	31 Mar 2009 £'000	31 Mar 2010 £'000	31 Mar 2011 £'000
Present Value of Liabilities	423,305	414,364	408,076	650,117	544,805
Fair Value of Assets	(281,471)	(286,568)	(232,676)	(322,353)	(333,575)
Deficit	141,834	127,796	175,400	327,764	211,230

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The net liability of £211.2 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, the deficit will be made good over a twenty two year recovery period, as assessed by the Council's actuary in accordance with government guidelines.

The Pension Fund's net liability increased during the year by 36%, due to positive asset returns and falling long term inflation expectations, alongside the pension increase assumption changing from being in line with the Retail Price Index (RPI) to the Consumer Price Index (CPI).

### **f) History of Experience Gains and Losses**

The related experience gains and losses for 31 March 2011 and earlier years are as follows:-

	<b>31 Mar 2007</b>	<b>31 Mar 2008</b>	<b>31 Mar 2009</b>	<b>31 Mar 2010</b>	<b>31 Mar 2011</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
On assets as % of Fair Value	0	(10)	(35)	21	(5)
On Liabilities as % of Present Value	0	(1)	0	00	3

## **39. Nature and Extent of Risks Arising from Financial Instruments**

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code on Treasury Management in the Public Services and investment guidance issued through the Act.

The Council has written principles for overall risk management as well as written policies and procedures (Treasury Management Practices –TMPs) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council on 7 March 2011 and is available on the Council's website. Actual performance is reported on a quarterly basis via the Audit Committee.

Credit risk arises from the lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council has a policy of limiting deposits with individual institutions to a maximum of £15m.

The Council's maximum exposure to credit risk over the last five years has been based on

- Historical experience of default
- Historical experience adjusted for market conditions as at 31 March 2011.

Both of these measures have calculated the Council's future risk (excluding impaired investments) as zero.

The maximum credit limit for individual institutions was not exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties except for two deposits made to Heritable Bank outlined below.

The maturity analysis of investments excluding Heritable Bank deposits is as follows:

	<b>31 March 2010</b> £'000	<b>31 March 2011</b> £'000
Less than three months	23,619	34,016
Three to six months	8,308	0
Six months to one year	0	0
More than one year	5,021	0
<b>Total</b>	<b>36,948</b>	<b>34,016</b>

The maturity analysis of customers (debtors) is as follows:

	<b>31 March 2010</b> £'000	<b>31 March 2011</b> £'000
Less than three months	35,537	30,266
Three to six months	0	0
Six months to one year	0	0
More than one year	1,177	1,584
<b>Total</b>	<b>36,714</b>	<b>31,850</b>

### Heritable Bank

In October 2008, the Icelandic banks Landsbanki and Kaupthing & Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration.

At that time the Council has £5.5m deposited with Heritable Bank, a subsidiary of Landsbanki. An impairment adjustment was made to those deposits in the 2008/09 accounts. This ensured that they were included in the financial statements at no more than their estimated recoverable value which was 80% at the time. Details of the deposits are as follows:

Investment	Date invested	Maturity date	Amount invested	Interest rate	2008/09 Carrying amount	2008/09 Impairment
			£000		£000	£000
£3.5m	1.8.08	3.11.08	3,500	5.85%	3,636	1,105
£2m	30.9.08	7.10.08	2,000	6.50%	2,065	649
<b>Total</b>			<b>5,500</b>		<b>5,701</b>	<b>1,754</b>

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The initial estimate from the administrators Ernst and Young of the recoverable amount was 80 pence in the

pound and this was used to estimate the impairment included in the 2008/09 accounts. In the latest creditor progress report this estimate has been improved to 85 pence in the pound and as such the impairment shown in the 2010/11 accounts has been reduced.

In calculating the revised impairment the following assumptions on timing of recoveries have been made:

April 2011 – 6.25%, July 2011 -5%, Oct 2011 -5%, Jan 2012 -5%, April 2012 -5%, July 2012 -5%, Oct 2012 -3.65%

Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 6 October 2008. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators, further adjustments are likely to be made to the accounts in future years.

Under accounting requirements for calculating these impairments the Council will continue to accrue interest on these impaired investments at each investment's original interest rate until it is derecognised in the balance sheet. This will be the point at which the final payment in from the administrators is received. The revised impairment charge is calculated by discounting the expected repayments by the original interest rate of each investment and comparing this against the carrying amount for each investment. This results in a reduction of £325k in the initial charge of £1.754 million included in the 2009/10 accounts and an overall charge of £0.791 million over the anticipated period that repayments will be made. The impact of the revision to the impairment charge and interest credits on the accounts between 2008/09 and 2012/13 is shown in the table below.

	<b>08/09 £'000</b>	<b>09/10 £'000</b>	<b>10/11 £'000</b>	<b>11/12 £'000</b>	<b>12/13 £'000</b>	<b>Total £'000</b>
Recognition of Impairment	1,754	0	0	0	0	1,754
Revision to Impairment	0	(329)	4	0	0	(325)
Interest credited	(200)	(213)	(137)	(74)	(14)	(638)
	<b>1,554</b>	<b>(542)</b>	<b>(133)</b>	<b>(74)</b>	<b>(14)</b>	<b>791</b>

The overall net projected impairment on the accounts of £0.791m represents the £0.825m (15%) of the deposits that the administrators are currently advising may not be recovered, reduced by £0.033m to allow for the recovery of 85% of the interest accrued on the deposits up to 6 October 2008.

The Council decided not to utilise the regulations issued in March 2009 which meant the Council did not charge amounts relating to impaired investments to the General Fund. As a result it did not transfer any of the impairment loss to the Financial Instruments Adjustment Account. Instead the Council funded the impairment from a reserve specifically set up as part of the 2009/10 budget setting process to cover this cost.

## Liquidity Risk

The Council has access to borrowing from the money markets to cover day to day cash flow needed and the Public Works Loans Board and money markets for access to longer term funds. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not more than 15% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity structure of financial liabilities is as follows (at nominal value):

### Analysis of Liquidity Risk

On 31 March 2010 £'000	Loans outstanding	On 31 March 2011 £'000
49,622	Public Works Loans Board	49,494
15,300	Market debt	15,300
<b>64,922</b>	<b>Total</b>	<b>64,794</b>
128	Less than 1 year	79
79	Between 1 and 2 years	44
3,081	Between 2 and 5 years	7,042
4,515	Between 5 and 10 years	607
57,119	More than 10 years	57,022
<b>64,922</b>	<b>Total</b>	<b>64,794</b>

The figures in the table above exclude accrued interest on these loans.

In the category of more than 10 years there are £15.3 million of LOBOs (see note 14). All three LOBOs are now in their secondary period.

## Market Risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council depending on how variable and fixed interest rates move across differing financial instrument periods. For instance a rise in variable and fixed interest rates would have the following effects:

- investments & borrowing at variable rates –the interest income credited (investments) or charged (borrowing) to the Income and Expenditure Account would increase, and;
- investments & borrowing at fixed rates –the fair value of the assets and borrowing will fall.

The Council has a number of strategies for managing interest rate risk. The spreading of loan maturity dates is explained above. Variable rate loans are limited to a maximum of 20% of overall borrowing. The Council continually tracks interest rates and uses its treasury management advisers, Sector, to identify opportunities for restructuring debt. In doing so, any premiums or discounts applicable are taken into consideration when assessing whether this may be beneficial to the Council. However following a change last year in the way in which the PWLB calculates premiums and discounts such opportunities are now more limited as costs are higher.

There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

#### **Analysis of Risk**

	<b>£'000</b>
Increase in interest payable on variable rate borrowings	153
Increase in interest receivable on variable rate investments	(500)
Increase in government grant receivable for financing costs	0
<b>Impact Surplus or Deficit on the Provision of Services</b>	<b>(347)</b>

#### **Share of overall impact debited to the HRA**

	<b>(4)</b>
Decrease in fair value of fixed rate investment assets	0
Impact on Other Comprehensive Income and Expenditure	0
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(8,121)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

#### **Price Risk**

The Council excluding the Pension Fund does not invest in equity shares or marketable bonds.

#### **Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## Section 4

# **Other Financial Statements**

**2010/11**



# **Housing Revenue Account**

**2010/11**

This shows the income from, and costs of providing, Council housing and related ancillary services to Council tenants.

**HRA Income and Expenditure Account**  
**For The Year Ended 31 March 2011**

<b>2009/10</b>			<b>Notes</b>	<b>2010/11</b>
£'000				£'000
<b>Expenditure</b>				
1,763	Operating Costs			1,853
13,969	Sutton Housing Partnership Management Fee			13,758
2,717	Rents, Rates, Taxes and Other Charges			2,216
9,678	HRA Subsidy Payable to central government	10		9,869
4,588	Depreciation of Fixed Assets	8		4,722
	Impairment Costs:	9		
2,104	- Demolitions			1,442
145	- Revaluations			127,985
0	- Land transfer			681
180	Increase in Bad Debt Provision			184
<b>35,143</b>	<b>Total Expenditure</b>			<b>162,710</b>
<b>Income</b>				
26,856	Gross Rent from Council Dwellings			27,019
595	Non Dwellings Rent (Gross)			653
4,626	Charges for Services and Facilities			4,070
111	Contributions Towards Expenditure			165
582	Other Government Grants			475
	Reversed Impairment Costs			
19,247	- Revaluation			0
<b>52,017</b>	<b>Total Income</b>			<b>32,382</b>
<b>(16,874)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement.</b>			<b>130,328</b>
98	HRA Services Share of Corporate and Democratic Core			78
<b>(16,776)</b>	<b>Net Cost of HRA Services</b>			<b>130,406</b>
<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement.</b>				
0	(Gain)/ Loss on disposal of non-current assets			(727)
50	Interest Payable and similar charges			162
(47)	Interest and Investment Income			(36)
69	Pensions Interest Cost and Expected Return on Pension Assets			66
0	Capital Grants and Contributions Receivable.			0
<b>(16,704)</b>	<b>Deficit/(Surplus) for the Year on HRA Services</b>			<b>129,871</b>

## Statement of Movement on the Housing Revenue Account Balance

<b>2009/10</b>	<b>£'000</b>	<b>Notes</b>	<b>2010/11</b>
<b>£'000</b>			<b>£'000</b>
<b>1,458</b>	<b>Balance on the HRA at the end of the previous year</b>		<b>823</b>
16,704	Surplus/ (Deficit) on the HRA Income and Expenditure Account for the year  <b>Adjustments between accounting basis and funding basis under statute</b>  Amounts included in the HRA Income and Expenditure Account but required to be excluded when determining the HRA Surplus or Deficit for the year		(129,871)
118	– Net Charges made for Retirement Benefits in Accordance with FRS17		169
(16,999)	– Impairment Costs		130,108
0	– Gain/(Loss) on disposal of non-current assets		(727)
	Amounts not included in the HRA Income and Expenditure Account but required to be included when determining the HRA Surplus or Deficit for the year		
(139)	– Employers Contributions Payable to the Pension Fund		(124)
<b>(316)</b>	<b>Net increase/ (decrease) before transfers to or from reserves</b>		<b>(445)</b>
73	Transfer from the Major Repairs Reserve		55
(392)	Transfer to Heating Reserve		(107)
<b>823</b>	<b>Balance on the Statutory HRA Reserve Carried Forward</b>		<b>326</b>
414	Heating Reserve – Accumulated Surplus		521
<b>1,237</b>	<b>Net Surplus</b>		<b>847</b>

### Notes to the Housing Revenue Account

#### 1. Sutton Housing Partnership

Housing services for Sutton Council's tenants and leaseholders are managed by an arms length management organisation (ALMO) named Sutton Housing Partnership Ltd. Sutton Housing Partnership is managed by a Board of Directors, which includes four tenants and leaseholders, four independent community representatives and four Council nominees. Ownership of the housing stock remains with the Council.

Sutton Housing Partnership prepares its own Statement of Accounts that is distinct from the Housing Revenue Account Statement presented above, which includes London Borough of Sutton income and expenditure only. Sutton Housing Partnership's Income and Expenditure is consolidated within the Group Accounts.

The costs incurred by Sutton Housing Partnership in operating the arms length management organisation, including property repairs and maintenance, are shown in the HRA Income and Expenditure account under the heading "Sutton Housing Partnership Management Fee".

## 2. Balance Carried Forward

The HRA Reserve balance carried forward at 31 March 2011 of £325,663 is recognised as having fallen to a lower than satisfactory level. The budgets for 2011/12 have been set with a view of increasing this working balance to £900,000 by 31 March 2012 with further plans in place to raise the balance to a more prudent level over the next three years. The Heating Reserve of £521,258 holds the net balance of tenants' charges and recoveries for heating and hot water. It will be used to help smooth future volatility.

## 3. Housing Stock

At 31 March 2011 the Council managed 6,400 tenanted and leasehold dwellings. The Council also owned a proportion of 14 equity share/shared ownership dwellings, being the equivalent of 8 fully-owned dwellings.

### Analysis of HRA Dwellings at 31 March 2011

Total 2008/09	Dwellings at 1 April	Bedsits	Flats	Houses	Total
<b>6,531</b>	<b>Dwellings at 1 April</b>	<b>245</b>	<b>3,254</b>	<b>2,964</b>	<b>6,463</b>
(66)	Demolitions	(15)	(34)	(6)	(55)
0	Stock Transfers	0	0	0	0
(2)	Right to Buy Sales	(1)	0	(3)	(4)
0	Other Disposals	0	0	0	0
0	Net Changes through Change of Use or Refurbishment	0	(3)	(1)	(4)
<b>6,463</b>	<b>Dwellings at 31 March</b>	<b>229</b>	<b>3,217</b>	<b>2,954</b>	<b>6,400</b>

55 properties were demolished during 2010/11, and carried a book value of £1.442 million prior to demolition. This has been treated as an impairment charge and written out through the HRA. The impairment charges do not impact on the HRA surplus, and have been written back in the Statement of Movement on the HRA balance.

## 4. Stock Valuation

An interim revaluation of the Council's housing stock was completed as at 1 April 2010, price changes to 31 March 2011 were reviewed but are not reflected in the following figures as the impact was immaterial. Disposals to 31 March 2011 have been accounted for in the valuation.

### Balance Sheet Valuation of HRA Assets

As at 31 March 2010		As at 31 March 2011
£'000	Operational Assets:	£'000
388,098	Dwellings	257,622
3,834	Other Land and Buildings	3,819
0	Vehicles, Plant & Equipment	0
3,967	Non Operational Assets	3,864
<b>395,899</b>	<b>Total</b>	<b>265,305</b>

This valuation reflects the use of HRA dwellings as tenanted stock. The vacant possession valuation at 31 March 2011 is £1,037 million (£969 million at 31 March 2010). The balance sheet valuation is considerably lower because dwellings are tenanted and the rents charged reflect the position of social housing, and discounts are available to tenants who purchase their dwellings under the statutory Right-to-Buy scheme.

## 5. Major Repairs Reserve

The reserve is credited with the depreciation charged to the HRA each year with an adjustment to ensure the net credit in the year equals the Major Repairs Allowance (MRA) which forms part of the overall Housing Subsidy arrangements. The reserve is only available for financing major repairs carried out to the housing stock. Any sums unspent are carried forward for use in future years.

<b>2009/10</b>		<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
142	Balance at 1 April	229
7,915	Major Repairs Allowance received	1,267
73	Depreciation on non-dwellings	55
(7,833)	MRA used on capital projects	(1,499)
(73)	Transfer to Statement of Movement on HRA balance	(55)
5	Capital Receipts Allowance on Improvements Relating to Right-to-Buy Properties	3
<b>229</b>	<b>Balance Carried Forward at 31 March</b>	<b>0</b>

## 6. HRA Capital Financing

<b>2009/10</b>		<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
<b>9,793</b>	HRA Capital Expenditure	<b>9,462</b>
	Financed by :	
1,244	Loan	6,244
7,833	Major Repairs Reserve	1,499
353	Capital Receipts	234
363	Other	1,485
<b>9,793</b>	<b>Total</b>	<b>9,462</b>

## 7. HRA Capital Receipts

<b>2009/10</b>		<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
699	Roundshaw Stock Transfer	273
341	Right to Buy Sales	610
270	Other Disposals	0
11	Mortgage Repayments	5
6	Repayment of Discount (net)	0
<b>1,327</b>	<b>Total</b>	<b>888</b>

## 8. Depreciation

The Council's depreciation policy is to write down asset values over their estimated life, on a straight line basis. For Council dwellings the policy has been to provide for depreciation at an amount equal to the Major Repairs Allowance (MRA) as recommended by Department of Communities and Local Government (DCLG). Depreciation based on MRA equates to £4.6 million. Assuming an average life of 50 years for Council dwellings, depreciation, excluding land values, would amount to some £4.3 million. This difference is not considered material to the overall valuation of the Council's housing stock.

<b>2009/10</b>		<b>2010/11</b>
£'000		£'000
	Operational Assets:	
4,515	Dwellings	4,667
51	Other Land and Buildings	54
22	Vehicles, Plant & Equipment	0
<b>4,588</b>	<b>Total</b>	<b>4,721</b>

## 9. Impairment

Impairment charges totalling £129.8 million have occurred during 2010/11. This charge is a result of the following:

- £127.7m impairment due to the social housing factor on valuation being reduced from 37% to 25%. The social housing factor is the percentage applied to the market value of housing to reflect the fact the Authority does not receive the full benefit of the assets due to the rents charged being below market rate. This percentage is set by DCLG.
- £1.4m impairment due to a number of housing properties being demolished in year.
- £0.7m impairment to land which has been transferred to Broomleigh Housing Association at nil value.

The impairment charges do not impact on the HRA surplus and have been written back in the Statement of Movement on the HRA balance.

## 10. Housing Revenue Account Subsidy

The HRA subsidy system redistributes rent income across all local authorities with housing functions. Sutton is a net contributor to the system.

This is made up of the following elements:

<b>2009/10</b>		<b>2010/11</b>
£'000		£'000
11,728	Allowance for Management & Maintenance	12,324
4,515	Allowance for Major Repairs	4,667
867	Charges for Capital	682
(26,785)	Guideline Rent Income	(27,263)
(3)	Interest on Receipts	(1)
0	Other	(278)
<b>(9,678)</b>	<b>Net Negative HRA Subsidy (Payable)</b>	<b>(9,869 )</b>

## 11. Contributions to and from the Pension Reserve

The HRA is required to be charged with a share of the contribution made by the Local Authority towards the cost of retirement benefits. Although the benefits earned by employees will not actually be payable until employees retire, the Authority has a commitment to account for such payments at the time the employees earn their future entitlement. The financial statements therefore recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge made against the HRA is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the HRA balance.

## 12. Rent and Service Charge Arrears

Rent and service charge arrears at 31 March 2011 totalled £1,000,618 compared to £1,292,148 at 31 March 2010. As a proportion of gross rent and service income, this represents 3.58% compared to 4.67% in 2009/10.

Total provision for uncollectable rent and service debt totalled £799,200 at 31 March 2011 compared to £835,831 at 31 March 2010.

As at 31 March 2010		As at 31 March 2011
£'000		£'000
1,032	Current Tenant Arrears	902
767	Former Tenant Arrears	599
<b>1,799</b>	<b>Total</b>	<b>1,501</b>
(506)	Accounts in credit	(500)
<b>1,293</b>	<b>Net Arrears</b>	<b>1,001</b>

These arrears include charges due from tenants for rent, heating and hot water, garages, and other tenancy related charges.



# **Collection Fund**

**2010/11**

This summarises income from the Council Tax and business rates (NNDR), precepts and demands upon the Fund, and adjustments in respect of the former Community Charge.

**Collection Fund Income and Expenditure Account 2010/11**

<b>2009/10</b>		<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income</b>		
94,026	Council Tax collected	94,306
13,326	Transfers from General Fund re Council Tax Benefits	13,938
49,207	Income Collectable from Business Ratepayers (Note 3)	47,852
<b>156,559</b>	<b>Total Income</b>	<b>156,096</b>
<b>Expenditure</b>		
	Precepts & Demands (Note 4)	
83,741	- London Borough of Sutton	84,083
22,741	- Greater London Authority	22,834
	Business rate:	
48,985	- Payment to National Pool	46,169
222	- Costs of Collection	216
	Cross Rail:	
0	- Payment to GLA	1,457
0	- Costs of Collection	10
	Bad and Doubtful Debts (Council Tax):	
216	- Write-offs/(Write-back)	(110)
109	- Increase/(Decrease) in Provision	(65)
	Contributions:	
1,280	- Towards Distribution of Estimated Surplus	1,271
2	- Adjustment of Previous Years' Community Charges	0
<b>157,296</b>	<b>Total Expenditure</b>	<b>155,864</b>
2,102	Fund Balance 1 April	1,365
(737)	Surplus/ (Deficit) for the Year	231
<b>1,365</b>	<b>Surplus Carried Forward 31 March</b>	<b>1,596</b>
<b>£'000</b>		<b>£'000</b>
Distribution of Fund Balance:		
1,074	- London Borough of Sutton	1,256
291	- Greater London Authority	340
<b>1,365</b>	<b>Total Distribution of Fund Balance</b>	<b>1,596</b>

## 1. General

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund. The revenue account shows the transactions into the Fund by way of Council Tax and National Non-Domestic Rates and how the amount collected has been distributed to preceptors and the General Fund.

## 2. Council Tax

The basic amount of Council Tax due for a property is derived by multiplying the Council Tax for a Band D property (£1,450.71 in 2010/11) by the ratio applicable to the property.

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, was calculated as follows:-

Market Value as at April 1991	Band	Estimated Number of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
Less Than £40,000	A	590	6/9	393
£40,000 - £52,000	B	5,551	7/9	4,317
£52,000 - £68,000	C	22,482	8/9	19,984
£68,000 - £88,000	D	21,445	9/9	21,445
£88,000 - £120,000	E	11,236	11/9	13,733
£120,000 - £160,000	F	6,341	13/9	9,159
£160,000 - £320,000	G	3,407	15/9	5,678
£320,000 or more	H	221	18/9	442
		<b>71,273</b>		<b>75,151</b>
 Deduct :-				
Adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation banding, new properties, demolitions, disabled persons relief, reduced second homes discount and exempt properties.				1,451      1.93%
Council Tax Base				<b>73,700</b> 98.07%

### 3. Income From Business Ratepayers

Under the arrangements for uniform business rates, the Council collects non domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by Central Government, which in turn, is paid back to authorities as part of Formula Grant their share of the pool being based on a standard amount per head of resident population. In 2010/11 the Council received £47.6 million from the pool, and contributed £49.0 million.

The total non domestic rateable value at 31 March 2011 was £132.136 million (£119.495 million at 31 March 2010). The Government advises local authorities of the two business rate multipliers annually. For 2010/11 these were:

- Small business non-domestic rating multiplier – 40.7p per £ (48.1p per £ in 2009/10)
- Non-domestic rating multiplier – 41.4p per £ (48.5p per £ in 2009/10)

For 2010/11 all non domestic properties were assessed and given new rateable values. This is called the revaluation and took effect from 1 April 2010. The Revaluation does not raise extra revenue overall but instead reflects changes in the property market across the country and therefore redistributes the same tax liability for business rates. Legislation only allows for the overall national bill from business to change with inflation. As a result the multipliers have reduced from their 2009/10 levels to offset the overall increase in property values and to keep the overall national bill for NNDR in line with inflation at September 2009.

### 4. Precepts and Demands

<b>2009/10</b>		<b>2010/11</b>
	£'000	£'000
83,741	London Borough of Sutton	84,083
22,741	Greater London Authority	22,834
<b>106,482</b>	<b>Total</b>	<b>106,917</b>

In addition to the £106.917 million above, the estimated surplus on the Collection Fund at 31 March 2010 of £1.271 million was shared between the Council and the GLA in 2010/11, £1.000 million to the Council and £0.271 million to the GLA.

# **Group Accounts**

**2010/11**

Sutton Housing Partnership manages the Council's housing stock as an arms length management organisation under the ultimate control of the Council. Group accounts have been prepared to give an overall picture of the activities and financial position of the Council including those activities carried out by Sutton Housing Partnership on behalf of the Council.

**Group Movement in Reserves Statement**

	General Fund Balance & Earmarked Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Council's share of reserves of SHP	Total reserves attributable to Authority
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2009	33,950	1,481	6,330	143	42,178	511,076	553,253	(1,495)	551,758
Surplus or (Deficit) on provision of services (accounting basis)	2,046	16,704	0	0	18,750	0	18,750	(14,293)	4,457
Other Comprehensive Expenditure and Income	0	0	0	0	0	(138,401)	(138,401)	(5,595)	(143,996)
<b>Total Comprehensive Expenditure and Income</b>	<b>2,046</b>	<b>16,704</b>	<b>0</b>	<b>0</b>	<b>18,750</b>	<b>(138,401)</b>	<b>(119,651)</b>	<b>(19,888)</b>	<b>(139,539)</b>
Adjustment between Group Accounts and Authority Accounts	(14,494)	0	0	0	(14,494)	0	(14,494)	14,494	0
<b>Net Increase/ Decrease before transfers</b>	<b>(12,448)</b>	<b>16,704</b>	<b>0</b>	<b>0</b>	<b>4,256</b>	<b>(138,401)</b>	<b>(134,145)</b>	<b>(5,394)</b>	<b>(139,539)</b>
Adjustments between accounting basis and funding basis under regulations	8,872	(16,948)	(1,183)	(73)	(9,332)	9,332	0	0	0
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	<b>(3,576)</b>	<b>(244)</b>	<b>(1,183)</b>	<b>(73)</b>	<b>(5,076)</b>	<b>(129,069)</b>	<b>(134,145)</b>	<b>(5,394)</b>	<b>(139,539)</b>
Transfers to / from Earmarked Reserves	(159)	0	0	159	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(3,735)</b>	<b>(244)</b>	<b>(1,183)</b>	<b>86</b>	<b>(5,076)</b>	<b>(129,069)</b>	<b>(134,145)</b>	<b>(5,394)</b>	<b>(139,539)</b>
<b>Balance at 31 March 2010</b>	<b>30,215</b>	<b>1,237</b>	<b>5,421</b>	<b>229</b>	<b>37,102</b>	<b>382,006</b>	<b>419,108</b>	<b>(6,889)</b>	<b>412,219</b>

	General Fund Balance & Earmarked Reserves	Housing Revenue Account (HRA)	Capital Grants & Contributions Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Council's share of reserves of SHP	Total reserves attributable to Authority
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2010	30,215	1,237	5,421	229	37,102	382,006	419,108	(6,889)	412,219
Surplus or (Deficit) on provision of services (accounting basis)	89,168	(129,871)	0	0	(40,703)	0	(40,703)	(12,356)	(53,059)
Other Comprehensive Expenditure and Income	0	0	0	0	0	86,362	86,362	3,103	89,465
<b>Total Comprehensive Expenditure and Income</b>	<b>89,168</b>	<b>(129,871)</b>	<b>0</b>	<b>0</b>	<b>(40,703)</b>	<b>86,362</b>	<b>45,659</b>	<b>(9,253)</b>	<b>36,406</b>
Adjustment between Group Accounts and Authority Accounts	(14,191)	0	0	0	(14,191)	0	(14,191)	14,191	0
<b>Net Increase/ Decrease before transfers</b>	<b>74,977</b>	<b>(129,871)</b>	<b>0</b>	<b>0</b>	<b>(54,894)</b>	<b>86,362</b>	<b>31,468</b>	<b>4,938</b>	<b>36,406</b>
Adjustments between accounting basis and funding basis under regulations	(69,270)	129,429	(1,000)	(177)	58,982	(58,982)	0	0	0
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	<b>5,707</b>	<b>(442)</b>	<b>(1,000)</b>	<b>(177)</b>	<b>4,088</b>	<b>27,380</b>	<b>31,468</b>	<b>4,938</b>	<b>36,406</b>
Transfers to / from Earmarked Reserves	0	52	0	(52)	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>5,707</b>	<b>(390)</b>	<b>(1,000)</b>	<b>(229)</b>	<b>4,088</b>	<b>27,380</b>	<b>31,468</b>	<b>4,938</b>	<b>36,406</b>
<b>Balance at 31 March 2011</b>	<b>35,922</b>	<b>847</b>	<b>4,421</b>	<b>0</b>	<b>41,190</b>	<b>409,386</b>	<b>450,576</b>	<b>(1,951)</b>	<b>448,625</b>

**Group Comprehensive Income and Expenditure Account for the Year  
Ended 31 March 2011**

2009/10	<b>Continuing services</b>	Notes	2010/11		
			Expenditure	Income	Net Expenditure
£'000			£'000	£'000	£'000
4,783	<b>Central Services to the Public</b>		21,091	16,418	4,673
32,403	<b>Cultural, Environmental, Regulatory &amp; Planning Services</b>		42,330	8,286	34,044
26,176	<b>Children's &amp; Education Services</b>		189,358	175,472	12,886
7,850	- Schools		13,516	6,892	6,624
18,892	- Non-School Funding		24,395	3,555	20,840
	- Children's Services		27,373	5,155	22,218
21,555	<b>Highways &amp; Transport Services</b>				
5,741	<b>Housing Services</b>		79,538	71,234	8,304
(14,335)	- General Fund Housing		18,659	32,382	(13,723)
2,248	- Housing Revenue Account		1,442	0	1,442
(19,247)	- Main HRA Revenue Account		127,717	0	127,717
14,083	- Impairment – Demolitions		13,126	219	12,226
	- Impairment – Dwellings				
	- Sutton Housing Partnership				
48,253	<b>Adult Social Care</b>		83,122	33,727	49,394
7,935	<b>Corporate and Democratic Core</b>		5,976	119	5,857
1,045	<b>Non Distributed Costs</b>		1,558	7	1,551
0	- Past service cost		0	61,699	(61,699)
<b>157,382</b>	<b>Cost of services</b>		<b>649,201</b>	<b>416,166</b>	<b>233,035</b>
2,404	<b>Other Operating Expenditure</b>		6,000	4,295	1,705
13,846	<b>Financing and Investment Income and Expenditure</b>		14,364	1,163	13,201
(178,095)	<b>Taxation &amp; Non-Specific Grant Income</b>		0	194,885	(194,885)
<b>(4,463)</b>	<b>(SURPLUS)/ DEFICIT ON THE PROVISION OF SERVICES</b>				<b>53,056</b>
6	Tax expenses of SHP				3
<b>(4,457)</b>	<b>GROUP (SURPLUS)/ DEFICIT</b>				<b>53,059</b>
(8,081)	Net (Surplus) arising on revaluation of Property, Plant and Equipment Assets				(27,224)
155,481	Actuarial (gains)/losses on pension fund assets and liabilities				(65,945)
0	Other (gains)/losses:				
(3,404)	Collection Fund Adjustment				3,404
<b>143,996</b>	<b>Early receipt of Major Repair Allowance</b>				<b>(89,465)</b>
<b>139,539</b>	<b>Other comprehensive income and expenditure</b>				<b>(36,406)</b>



**Group Balance Sheet as at 31 March 2011**

<b>31.03.09</b>	<b>31.03.10</b>		<b>Note s</b>	<b>31.03.11</b>
<b>£'000</b>	<b>£'000</b>			<b>£'000</b>
<b>Non-Current Assets</b>				
360,745	388,098	Property, Plant and Equipment		
347,525	339,259	- Council Dwellings		257,622
6,253	5,885	- Other Land and Buildings		371,071
9,489	9,489	- Vehicles, Plant, Furniture and Equipment		5,340
540	1,154	- Infrastructure Assets		9,489
28,144	35,317	- Community Assets		1,267
12,055	12,422	- Assets Under Construction		46,915
27,805	28,490	- Surplus Assets Held for Disposal		10,204
4,217	1,456	Investment Properties		28,356
893	1,177	Long Term Investments		0
		Long Term Debtors		1,584
<b>797,665</b>	<b>822,747</b>	<b>Total Non-Current Assets</b>		<b>731,848</b>
<b>Current Assets</b>				
47,110	38,261	Short term investments		36,119
249	388	Inventories		401
29,330	35,656	Debtors		30,165
3,342	1,614	Cash and cash equivalents		4,094
0	500	Assets held for sale		7,441
<b>80,031</b>	<b>76,419</b>	<b>Total Current Assets</b>		<b>78,220</b>
<b>Current Liabilities</b>				
174	1,085	Short term borrowing		1,028
38,544	44,552	Creditors		48,184
4,813	5,984	Provisions		5,462
36,881	33,204	Capital Grants Receipt in Advance		26,071
<b>80,412</b>	<b>84,825</b>	<b>Total Current Liabilities</b>		<b>80,745</b>
<b>Non-Current Liabilities</b>				
0	0	Creditors		0
2,070	1,716	Provisions		1,866
65,883	64,794	Long term borrowings		64,715
0	22	Finance lease liabilities		10
177,573	335,590	Liability Related to Defined Benefit Pension Scheme	5	214,107
<b>245,526</b>	<b>402,122</b>	<b>Total non-current liabilities</b>		<b>280,698</b>
<b>551,758</b>	<b>412,219</b>	<b>Net Assets</b>		<b>448,625</b>
<b>Non-usable reserves</b>				
61,750	69,925	Revaluation Reserve		94,959
629,180	645,937	Capital Adjustment Account		530,967
232	254	Deferred Capital Receipts/Income		249
(177,573)	(335,590)	Pensions Reserve		(214,107)
(1,521)	(1,436)	Financial Instruments Adjustment Account		(1,352)
0	0	Available for sale Financial Instruments Reserve		0
(4,813)	(5,984)	Accumulated Absenses Account		(5,463)
1,647	1,074	Collection Fund Adjustment Account		1,256
<b>508,902</b>	<b>374,180</b>			<b>406,509</b>
<b>Usable Reserves</b>				
0	0	Capital Receipts Reserve		0
6,604	5,421	Capital Grants & Contributions Unapplied		4,421
143	229	Major Repairs Reserve		0
1,481	1,237	Housing Revenue Account		847
20,104	15,738	General Reserves – General Fund		17,880
14,524	15,414	Earmarked Reserve		18,968
<b>42,856</b>	<b>38,039</b>			<b>42,116</b>
<b>551,758</b>	<b>412,219</b>	<b>Total Reserves</b>		<b>448,625</b>

**Reconciliation of the London Borough of Sutton Deficit  
for the Year to the Group Deficit**

<b>2009/10</b>	<b>2010/11</b>
(4,256) (Surplus)/ Deficit on London Borough of Sutton Income & Expenditure Account	54,894
(207) (Profit/ Loss on Sutton Housing Partnership Profit and Loss Account	(1,838)
<b>(4,463) Group Accounts Deficit for the Year</b>	<b>53,056</b>

**Group Cash Flow Statement**

<b>2009/10</b> <b>£'000</b>		<b>Notes</b>	<b>2010/11</b> <b>£'000</b>
<b>4,4577</b>	<b>Net Surplus or Deficit on the Provision of services</b>		<b>(53,059)</b>
524,452	Adjust net surplus or deficit on the provision of services for non cash movements	6	<b>676,782</b>
(522,520)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6	(614,118)
<b>6,389</b>	<b>Net Cash Inflow/(Outflow) from operating activities</b>		<b>9,605</b>
(8,938)	<b>Investing Activities</b>	8	(7,237)
821	<b>Financing Activities</b>	9	112
<b>(1,728)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>2,480</b>
3,342	Cash and cash equivalents at the beginning of the reporting period	10	1,614
1,614	Cash and cash equivalents at the end of the reporting period	10	4,094

## 1. Introduction

The Statement of Recommended Practice for Local Authorities requires the preparation of group accounts for all local authorities that have interests in subsidiaries, associated companies and joint ventures that are material in aggregate. The aim of consolidation is to give an overall picture of the Authority's financial activities and the resources employed in carrying out those activities.

Since the establishment of Sutton Housing Partnership (SHP) in April 2006, Group Accounts have been prepared to reflect the Council's interest in SHP as a subsidiary of the Council.

## 2. Consolidation

The Group Income and Expenditure Account and Balance Sheet have been prepared by consolidating the accounts of the subsidiary, as submitted to their auditors, on a line-by-line basis, in accordance with IAS27. Intra group transactions between London Borough of Sutton and Sutton Housing Partnership have been eliminated from the Statements.

## 3. About Sutton Housing Partnership (SHP)

Sutton Housing Partnership was created by the London Borough of Sutton to manage and improve the Council's housing stock and estates. It has the responsibility for managing approximately 6,500 Council homes for the Council.

It is managed by a board of 12 members made up of 4 council nominees, 3 tenants, 1 leaseholder and 4 independent community representatives with professional skills and experience to help run the services.

Under the Code, SHP is a wholly owned subsidiary of London Borough of Sutton and the Council is therefore required to consolidate the financial statements into the Group financial statements on a 100% basis. SHP is a private company limited by guarantee and does not have any share capital.

In 2010/11 the turnover of SHP amounted to £14.4 million and net liabilities (including the pension deficit) were valued at £2.0 million. The Council is liable to contribute to the debts and liabilities of the organisation if it is wound up, to the value of £1.

An audited copy of SHP's 2010/11 accounts can be obtained from Brendan Crossan, Executive Director of Resources, Sutton Housing Partnership, Sutton Gate, 1 Carshalton Road, Sutton SM1 4LE. The accounts are also available on SHP's website, [www.suttonhousingpartnership.org.uk](http://www.suttonhousingpartnership.org.uk)

## 4. Notes to the Accounts

Notes to the Group Accounts have been produced only where they are materially different to the single entity notes.

## 5. Pension Arrangements

The employees of London Borough of Sutton and SHP are eligible to join the Local Government Pension Scheme. As a scheduled body within the Sutton Pension Fund, SHP's pension liabilities and employer contribution rates are separately assessed (see page 111, note 2). The cost of pension benefits earned during the year were:

	LBS £'000	SHP £'000	Total £'000
<b>Net Cost of Services:</b>			
- Current Service Costs	16,459	785	17,244
- Past Service Costs	(61,699)	(2,270)	(63,969)
- Impact of Settlements and Curtailments	507	90	597
<b>Net Operating Expenditure:</b>			
- Interest Cost	33,212	1,114	34,326
- Expected Return on Assets	(22,740)	(982)	(23,722)
<b>Net Charge to the Income and Expenditure Account</b>	(34,261)	(1,263)	(35,524)
<b>Statement of Movement on the General Fund Balance:</b>			
- Reversal of net charges for retirement benefits in accordance with IAS19	34,261	1,263	35,524
<b>Actual amount charged against the General Fund balance for pensions in the year:</b>			
- Employers Contributions Payable to Scheme	19,731	581	20,312

The assets and liabilities of the pension fund have been calculated using the same assumptions as the reporting authority. At 31 March 2011 the overall assets and liabilities of the fund were:

	LBS £'000	SHP £'000	Total £'000
<b>Estimated Liabilities in the Pension Fund</b>	(544,805)	(18,497)	(563,302)
<b>Share of Assets in the Pension Fund</b>	333,575	15,620	349,195
<b>Net Pensions Liability</b>	(211,230)	(2,877)	(214,107)

## 6. Reconciliation of Net surplus/ (deficit) on the Group Provision of Services to Net Cash Flow

The deficit on the Group Comprehensive Income and Expenditure Statement includes transactions which do not result in cash flows. The following identifies these transactions and reconciles the Group Net surplus/ (deficit) on the Group Provision of Services with the actual net revenue cash flows shown on the Cash Flow Statement.

2009/10		2010/11
	£'000	£'000
4,457	Net surplus/ (deficit) on the Provision of Services	(53,059)
	Adjust net surplus or deficit for the Provision of services for non-cash movements	
21,105	• Depreciation and impairment	158,743
3,908	• Amortisation	2,661
8,306	• Increase/ (Decrease) in creditors	1,814
(3,935)	• (Increase)/ Decrease in debtors	3,307
(139)	• (Increase)/ Decrease in inventories	(13)
2,538	• Pension Liability	(55,836)
(354)	• Contributions to/ from provisions	(372)
5,514	• Carrying amount of non-current assets sold	1,947
487,026	• Carrying amount of short term and long term investments sold	567,931
483	• Other movements	(3,400)
<b>524,452</b>		<b>676,782</b>
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(31,422)	• Capital Grants credited to surplus or deficit on the provision of services	(44,200)
(487,026)	• Proceeds from the sale of short and long term investments	(567,931)
(4,072)	• Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,987)
<b>(522,520)</b>		<b>(614,118)</b>
<b>6,389</b>	<b>Total</b>	<b>9,605</b>

## 7. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009/10		2010/11
	£'000	£'000
1,370	• Interest received	1,260
(3,263)	• Interest Paid	(3,376)
0	• Dividends Received	0
<b>(1,893)</b>	<b>Total</b>	<b>(2,116)</b>

## 8. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
(47,675)	<ul style="list-style-type: none"> <li>Purchase of property, plant and equipment, investment property and intangible assets</li> </ul>	(51,315)
(475,417)	<ul style="list-style-type: none"> <li>Purchase of short term and long term investments</li> </ul>	(564,562)
0	<ul style="list-style-type: none"> <li>Other payments and investing activities</li> </ul>	0
4,072	<ul style="list-style-type: none"> <li>Proceeds from the sale of property, plant and equipment, investment property and intangible assets</li> </ul>	1,956
487,026	<ul style="list-style-type: none"> <li>Proceeds from short term and long term investments</li> </ul>	567,931
23,056	<ul style="list-style-type: none"> <li>Other receipts from investing activities</li> </ul>	38,773
<b>(8,938)</b>	<b>Net cash flows from investing activities</b>	<b>(7,237)</b>

## 9. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

<b>2009/10</b>		<b>2010/11</b>
<b>£'000</b>		<b>£'000</b>
0	<ul style="list-style-type: none"> <li>Cash receipts of short term and long term borrowing</li> </ul>	0
1,005	<ul style="list-style-type: none"> <li>Other receipts from financing activities</li> </ul>	337
(174)	<ul style="list-style-type: none"> <li>Repayment of short term and long term borrowing</li> </ul>	(211)
0	<ul style="list-style-type: none"> <li>Other payments for financing activities</li> </ul>	0
(10)	<ul style="list-style-type: none"> <li>Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts</li> </ul>	(14)
<b>821</b>	<b>Net cash flows from financing activities</b>	<b>112</b>

## 10. Cash and cash equivalents

The balance of Cash and Cash Equivalents is made up of the following elements.

<b>AS AT 31 MARCH 2010</b>		<b>AS AT 31 MARCH 2011</b>
<b>£'000</b>		<b>£'000</b>
0	Cash held by the authority	0
(756)	Bank current accounts	1,714
2,370	Short term deposits	2,380
<b>1,614</b>	<b>Total</b>	<b>4,094</b>



## Section 5

### **Pension Fund Accounts**

**2010/11**

These show the operation of the Sutton Local Government Pension Fund and do not form part of the Income and Expenditure Account or Balance Sheet.

**London Borough of Sutton Pension Fund Accounts**  
**Year Ended 31 March 2011**

2009/10 £'000		Notes	2010/11 £'000
	<b>Contributions and Benefits</b>		
	Contributions Receivable:		
19,208	From Employers	2	19,472
5,753	From Employees or Scheme Members	2	5,873
3,747	Transfers In		4,438
<b>28,708</b>	<b>Sub-Total Income</b>		<b>29,783</b>
	Benefits Payable:		
13,455	Pensions	3	14,106
3,394	Lump Sums	3	4,842
	Payments to and on account of Leavers:		
9	Refund of Contributions		56
4,966	Transfers Out		4,240
565	Administrative and Other Expenses		572
<b>22,389</b>	<b>Sub-Total Expenses</b>		<b>23,816</b>
<b>6,319</b>	<b>Net Addition from Dealings with Scheme Members</b>		<b>5,967</b>
	<b>Return on Investments</b>		
9,639	Investment Income	5c	10,190
70,006	Increase/(Decrease) in Market Value of Investments		11,591
(1,151)	Investment Management Expenses		(1,433)
<b>78,494</b>	<b>Net Return on Investments</b>		<b>20,348</b>
<b>84,813</b>	<b>Net Increase/(Decrease) in Fund During Year</b>		<b>26,315</b>
244,227	Opening Net Assets of the Scheme		329,040
<b>329,040</b>	<b>Total Net Assets at 31 March</b>		<b>355,355</b>
	<b>Net Assets Statement</b>		
	Investment Assets:		
225,468	Equities		241,521
21,410	Fixed Interest Securities - Public Sector		20,346
43,643	- Other		49,155
4,787	Index Linked Securities - Public Sector		5,123
19,955	Property Fund		20,628
<b>315,263</b>	<b>Sub-Total Securities</b>	5b	<b>336,773</b>
0	Loans to businesses		2,675
5,065	Cash		4,869
1,116	Debtors		1,288
<b>321,444</b>	<b>Total Investment Assets</b>	5a	<b>345,605</b>
	Current Assets		
7,517	Cash in Hand		9,941
373	Debtors (Contributions from Employers)		410
(294)	Current Liabilities		(610)
<b>329,040</b>	<b>Total Net Assets at 31 March</b>		<b>355,355</b>

Note: the accounts summarise the transactions and net assets of the fund. They do not take account of the liabilities to pay pensions and other benefits after 31 March 2011. This liability is included within the individual employer's balance sheet.

## 1. Membership

The Fund is established under the provisions of the Superannuation Act 1972 to provide pensions and other retirement benefits for the Council's employees (other than teachers) and the Scheduled and Admitted Bodies detailed below. The fund is administered by the Council.

### Scheduled Bodies:

- Carshalton College
- Sutton Housing Partnership

### Admitted Bodies:

- Bandon Hill Joint Cemetery Committee
- Citizens Advice Bureaux      - Beddington & Wallington  
    - Sutton  
    - St Helier (office now closed)
- Housing21 (admitted in 2008/09)
- H21 (Dementia Voice) (admitted in 2008/09)
- ThamesReach (admitted in 2008/09)
- The former Sutton and District Water Company (no current contributors)

As at 31 March, membership of the fund comprised

	<b>31 March 2010</b>		<b>31 March 2011</b>
4,157	Employees & Council Members	4,164	
2,746	Pensioners and dependants	2,868	
2,931	Former Employees - deferred benefits	3,052	

## 2. Contributions to the Fund

Scheme members make contributions to the Fund by deductions from earnings. From 1 April 2008 members' contribution rates vary between 5.5% and 7.5% depending on their pay band. Following the 2007 actuarial valuation, the employers' contribution rate was set at 21.5% of employees' earnings.

For Scheduled Bodies the employers' rates of contribution were:

- Carshalton College – 17.2% (17.2% since 2008/09)
- Sutton Housing Partnership – 15.5% (15.5% since 2008/09)

For Admitted Bodies the employers' rates of contribution were:

- Bandon Hill Joint Cemetery Committee – 28.3% (28.3% since 2008/09)
- Citizens Advice Bureaux – 23.8% (26.5% in 2009/10 and 24.0% in 2008/09)
- Housing21 – 21.8% (21.8% since 2008/09)
- H21 (Dementia Voice) – 20.4% (20.4% since 2008/09)
- ThamesReach – 21.6% (21.6% since 2008/09)

Contributions to the Pension Fund were as follows:-

<b>2009/10</b>		<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
<b>Employers Contributions</b>		
12,131	London Borough of Sutton - Future Service	12,244
5,856	London Borough of Sutton - Deficit Funding	6,108
	Scheduled Bodies	
506	- Carshalton College	477
603	- Sutton Housing Partnership	542
112	Admitted Bodies	101
<b>19,208</b>		<b>19,472</b>
<b>Active Members Contributions</b>		
5,294	London Borough of Sutton	5,429
	Scheduled Bodies	
191	- Carshalton College	186
239	- Sutton Housing Partnership	232
29	Admitted Bodies	26
<b>5,753</b>		<b>5,873</b>

### 3. Analysis of Benefits Payable

<b>2009/10</b>		<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>
16,390	London Borough of Sutton	18,391
	Scheduled Bodies	
193	- Carshalton College	200
173	- Sutton Housing Partnership	268
93	Admitted Bodies	91
<b>16,849</b>	<b>Total Benefits Payable</b>	<b>18,950</b>

### 4. Accounting Policies

The accounts have been prepared on an accruals basis and in accordance with the Statement of Recommended Practice (SORP) as applicable to Local Authorities, and the provisions of Chapter 2 Recommended Accounting Practice of the Pension SORP 2007. In particular:

- (a) Investments are stated at market value, with any surplus or deficit on valuations being credited directly to the fund balance. Market values for all securities (current bid price) are determined by prices quoted on stock exchanges at 31 March 2011.
- (b) Investment income is taken into account where dividends are declared but not paid at the balance sheet date.

- (c) A proportion of relevant officers' salaries, including related oncosts, has been charged to the Fund. Investment manager and custodian fees have been accounted for according to their respective agreements.
- (d) Transfer values are accounted for on a cash basis as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.
- (e) Under the 2008 SORP the Council has adopted the amendment to FRS17, Retirement Benefits, under which quoted investments held as assets in the Pension Fund are valued at bid price rather than mid-market value.
- (f) Fund manager assets denominated in non-sterling currencies are translated to sterling by the asset custodian using its foreign exchange rates for the balance sheet dates.

## 5. Fund Management

### a) Allocation of Assets

The Sutton Fund is mandated to four main fund managers. The asset allocation benchmark is 70% in global equities (split 50/50 between UK and Overseas), 20% in bonds and 10% in property. The global equity holding is split equally between two fund managers. Legal and General replaced Alliance Bernstein Ltd as equity fund manager with effect from 23 March 2011. Some residual investments remained with Alliance Bernstein at 31 March 2011 pending their transfer to Legal and General. Fees negotiated with fund managers for their services are on a sliding scale related to the overall value of funds managed, and include a performance element for equity based funds.

The market value of assets held by the fund managers at 31 March 2011 totalled £345.5 million split as follows:-

Alliance Bernstein (equities)	£0.929 million (0.3% of investment assets)
Legal & General (equities)	£107.4 million (31.1% of investment assets)
Newton (equities)	£138.7 million (40.1% of investment assets)
Aberdeen (bonds)	£74.6 million (21.6% of investment assets)
RREEF (property)	£21.2 million (6.1% of investment assets)
M & G Loans to businesses	£2.7 million (0.8% of investments)

£105.8 million of the Fund's assets are held in unitised form, comprising the bond and property assets and some equity unit trusts. The two largest unitised holdings are Aberdeen's Long Dated Sterling Credit Fund, representing 10.5% of net assets, and RREEF's UK Core Property Fund (5.8%). There is no other individual holding of more than 5%.

**b) Geographical Spread of Security Investments as at 31 March 2011**

	UK		Overseas		Total
	Quoted £'000	Unquoted £'000	Quoted £'000	Unquoted £'000	
Equities	60,227	53,602	73,672	54,020	241,521
Fixed Interest Securities (Bonds)	0	37,139	0	32,363	69,502
Indexed Linked Securities (Bonds)		5,025		97	5,122
Property		20,628			20,628
	60,227	116,394	73,672	86,480	336,773

**c) Investment Movement Summary for 2010/11**

Investment Movement Summary	Value at 31/03/2010	Purchases at Cost	Sales Proceeds	Direct Transaction Costs		Change in Market Value	Value at 31/3/2011	Income
				£million	£million	£million		
Equities	225.5	112.3	(107.2)	0.4		10.5	241.5	5.9
Bonds	69.8	17.0	(14.1)	0.0		1.9	74.6	3.0
Property	20.0	0.6	0.0	0.0		0.0	20.6	0.9
Total	315.3	129.9	(121.3)	0.4		12.4	336.7	9.8

**6. Non-adjusting Post Balance Sheet Event**

Given the current economic situation, it is possible that fluctuations in the value of assets may occur after the balance sheet date. Alternatively, information may come to light after the balance sheet date which could cast doubt on the valuation of particular assets or classes of assets at the balance sheet date.

Since 1 April 2011, nine secondary schools and two primary schools have converted to Academies with further schools expected to follow. Revised employer contribution rates to meet actuarially assessed deficits as at their time of conversion have been provided to the Academies as they are treated as separate employers from the Council with their own employer contribution rates. The calculations seek to ensure that the deficit is fairly shared between Academies and the Council. The rate at which Academies repay the deficit through employer contributions may change as they will now be treated as stand alone employers.

## 7. Actuarial Position

Pension Fund regulations require actuarial valuations to be prepared every three years. The last triennial valuation as at 31 March 2010 was prepared by Hymans Robertson, the Council's actuary. The valuation showed Fund assets, which at 31 March 2010 were valued at £337 million were sufficient to meet 69% of the liabilities (i.e. the present value of promised retirement benefits accrued up to that date). Following a stabilising exercise the overall employer contribution rate for LB Sutton will remain at 21.5% subject to a minimum cash sum being paid to meet the past service deficit (i.e. 17.4% of employees' earnings to fund future service deficit and the greater of 4.1% or £3,170,000 in 2011/12, £3,202,000 in 2012/13 and £3,371,000 in 2013/14 to fund past service liabilities.) This rate is intended to make good the deficit over a 22 year period, as assessed by the Council's actuary.

## 8. Principal Actuarial Method and Assumptions

The Actuary has calculated the actuarial present value of promised retirement benefits to be £511 million as at 31 March 2011 (£612 million as at 31 March 2010)

### a) Method

The liabilities were assessed using and accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### b) Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases*	5.3%	2.0%
Price inflation (CPI)/Pension increases	3.3%	-

\* 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard Self Administered Pension Schemes (SAPS) mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

\* based on members aged 45 at the valuation date.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from the London Borough of Sutton, administering authority to the Fund.

The next formal actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

## **9. Additional Voluntary Contributions**

In accordance with regulation 4 (2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093), additional voluntary contributions are not included in the Pension Fund Accounts. AVC's are managed independently by a specialist AVC fund provider, and are invested separately from the fund in the form of personal accounts securing additional benefits on a money purchase basis, for those members electing to pay additional voluntary contributions. Members participating in this arrangement each received an annual statement made up to 31 May 2010 confirming the amounts held to their account and the movements in the year. In the year to May 2010 AVC's paid by members amounted to £369,000 (£225,000 in 2009) and £82,500 was paid out by the scheme (£240,000 in 2009). At 31 May 2010 the total value of these AVC's was £1,074,000 (£706,000 at 31 May 2009). Note this is an externally provided scheme and valuations are given at the scheme date which is 31 May.

## **10. Disclosure of Related Party Transactions**

There were no transactions with related parties other than those which are disclosed in note 34 on page 73 of the accounts.

## **11. Pension Fund Annual Report**

These accounts will be included in the Pension Fund Annual Report which will also include the Council's Statement of Investment Principles, governance arrangements and other key information for the operation of the fund. A copy can be obtained from the Strategic Director – Resources, or viewed on the Council's website at [www.sutton.gov.uk](http://www.sutton.gov.uk). A summarised annual report will also be available on the website with other information and details of pension performance.

## **12. Audit Costs**

An audit fee of £35,000 is payable to the Audit Commission for external audit services used by the Pension Fund for the financial year 2010/11.



## Section 6

### **Statutory Statements**

**2010/11**



# **Statement of Responsibilities**

**2010/11**

This sets out the responsibilities of the Council and the Chief Finance Officer in relation to the Statement of Accounts.

## **Statement of Responsibilites for The Statement of Accounts**

### **The Responsibility of the Council**

The Council is required to manage its affairs in a way that secures the economic, efficient and effective use of resources and safeguards its assets.

The Council also has to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs under S151 of the Local Government Act 1972. In this Council that officer is the Strategic Director - Resources.

### **The Responsibilities of the Chief Finance Officer**

The Strategic Director - Resources is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2011. The Strategic Director - Resources is also responsible for preparing the Pension Fund accounts administered by the Council in accordance with the current Code of Practice.

In preparing this Statement of Accounts the Strategic Director - Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent, and;
- complied with the code.

The Strategic Director - Resources has also:

- kept proper, up to date, accounting records, and;
- taken reasonable steps for the prevention and detection of fraud and other irregularities across the Council's services.

My signature below certifies that the accounts were prepared in accordance with the requirements of the Accounts and Audit Regulations 2003 and, except where specifically stated, in accordance with all recognised statutory requirements and codes of practice applicable to local authorities. I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2011 and its income and expenditure for the year.



Strategic Director - Resources





# **Annual Governance Statement**

## **2010/11**

This explains the responsibilities of the Council for ensuring that sound and effective governance arrangements are in place.

## **Scope and Responsibility**

1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. There is also a responsibility under the Local Government Act 1999 to make arrangements to secure continuous improvement.
2. In discharging these responsibilities, the Council is required to put in place proper governance arrangements that facilitate the effective exercise of its functions. The Council's arrangements are consistent with the best practice recommended by CIPFA/SOLACE<sup>1</sup>. This statement explains how the arrangements are embedded and developed, and meets the requirements of the Accounts and Audit Regulations (2011).

## **Purpose of the Governance Framework**

3. The governance framework comprises the systems, cultures and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. The framework enables the Council to monitor the achievement of its priorities and the delivery of cost-effective services.
4. The system of internal control is a significant part of the framework. It is designed to: identify and prioritise the risks to the achievement of priorities and targets; evaluate the likelihood of the risks being realised and the impact should they be realised; and manage the risks proportionately. The system cannot eliminate all risk.
5. The governance framework has been in place for the year under review and up to the date of approval of the Statement of Accounts. Its key elements are summarised below

## **The Governance Framework**

### Element 1: Vision, Policy and Decision-making

6. The Corporate Plan provides a high level, strategic view of the Council's priorities - what we want to achieve to realise the vision of building a community in which all can take part and take pride. It should be read alongside the local strategic partnership plan, 'Sutton in partnership – working together'. The plans are part of an integrated planning framework that draws upon other plans, such as the Children and Young People's Plan. Planning is driven by information based needs assessments that identify risks, opportunities and changing context. Assessments draw on engagement with local people and partners. Our commitment to reduce inequalities and promote diversity underpins everything that the Council does and this is reflected in our updated Equality Policy Statement.
7. The Constitution details how the Council operates, how decisions are made and how procedures are to be followed to ensure that actions are legal, transparent and accountable. The Monitoring Officer provides advice on the interpretation and application of the Constitution. Following consultation, the Constitution was updated in March 2011. Section 2(Article 8) was updated to reflect the replacement of the Pension Fund Working Party with a Pensions Committee.

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<sup>1</sup> Delivering Good Governance in Local Government (2007), Chartered Institute of Public Finance and Accountancy and Society of Local Authority Chief Executives

8. The Executive is responsible for most decisions within the overall policy and budgetary framework approved by the full Council for delivering its priorities. Any decisions The Executive wishes to take outside of the framework are referred to Council as a whole to decide. Scrutiny committees monitor the work of The Executive and assist in policy development through pre-decision scrutiny. A post decision call-in procedure allows the opportunity of scrutiny of The Executive's decisions before they are implemented.
9. The Corporate Management Team, including the Section 151 Officer (Local Government Act 1972), supports councillors in the policy and decision-making process by providing assessments and advice. The implementation of decisions made is in a manner that promotes the Council's vision and values.

#### Element 2: Service Quality

10. The outward looking and self aware elements of the organisational culture enable us to assess service quality and identify baselines for improvement planning within the parameters of reduced budgets. The elements include the experiences of people who use services, quality standards such as the Government Quality Standard for Customer Service Excellence and VFM quotients to benchmark performance against peer councils. The assessment of service quality is an integral part of our programme of Smarter Services Sutton reviews, which proactively looks for improvement examples from the public, private and voluntary sectors
11. Corporate complaints procedures and service specific statutory complaints procedures are in place based on best practice standards and regulations. The information is used to drive continuous improvement. There is appropriate use of performance improvement frameworks such as the performance standards recommended by the Department for Work and Pensions to deliver high quality housing benefit and council tax benefit services.

#### Element 3: Roles, Responsibilities and Behaviour

12. The Constitution defines the roles and responsibilities of all Council committees and it details the scheme of delegation and reservation of powers. The Constitution also defines the personal conduct requirements of councillors and staff – they each have a code of conduct and registers of interest and hospitality. Councillors' disclosure requirements and councillor - officer protocols are in the Constitution. The Management & Leadership Charter sets out standards for how managers should behave and perform.
13. The Standards Committee's remit includes promoting and maintaining high standards of conduct and probity for all Councillors, co-opted members, other members of Council committees and joint committees, members of Council sponsored bodies, and Council representatives on other organisations, assisting those members to observe Sutton's Code of Conduct and related protocols, and considering complaints. In response to the Localism Bill, the Standards Committee is giving initial consideration to what arrangements the Council may wish to make in the future to manage conduct.

Element 4: Control Framework, Risk Management and Audit Committee

14. The Council's high-level policies and procedures are updated regularly and communicated to staff. The principal documents include the Financial Regulations and Contract Standing Orders. There are corporate policies on key topics, including Budget and Delivery Plans, Performance Management, Information Security Management, Freedom of Information, Anti-Fraud & Corruption, including Whistleblowing, and Workplace Health & Safety. Information security arrangements are supported by e-enabled training and are being developed in line with Cabinet Office guidance. Executive Heads are allocated the responsibility for owning information assets within their services.
15. Risk management is embedded throughout the Council. The Corporate Risk Register is refreshed alongside the Corporate Plan and shows the alignment between principal risks and priorities. The priorities drive Group Budget and Delivery Plans that identify significant risks to delivery.
16. Because the Council has a significant number of programmes and projects, including Smarter Services Sutton, Smarter Working and capital projects, programme and project management is being developed from the existing baseline. The Corporate Projects Board analyses performance of those programmes and projects in Sutton's Portfolio and these are reported to the Corporate Management Team and subsequently to The Executive on a quarterly basis.
17. The Audit Committee is independent of the executive and scrutiny function. Terms of reference are aligned to CIPFA's best practice standards for Audit Committees. The membership is politically proportionate and the Chair is an opposition Member

Element 5: Compliance

18. Compliance assessments are undertaken by management, auditors, and through the work of statutory inspectors, including the Care Quality Commission and the Office for Standards in Education. Scrutiny committees review a wide range of reports and ensure that recommendations are implemented. The One Planet Living Action Plan along with the Eco Management and Audit Scheme helps to reduce the Council's impact on the environment and independent assessors review performance.
19. The health and safety of vulnerable service users is a priority. Needs and risk assessments are key components of the social care delivery frameworks for children and adults. Roles and responsibilities are set out in service delivery protocols agreed with partners and in guidance manuals and cover information sharing and reporting potential abuse.
20. The Monitoring Officer is required to report on any proposal, decision or omission by the Council, committee or officer likely to contravene any enactment or rule of law, or any maladministration or injustice. No such report has been necessary in 2010/11. The Chief Finance Officer has not reported any case of unlawful expenditure, unlawful loss or deficiency or unlawful item of account.

Element 6: Economic, effective and efficient use of resources

21. The overarching priority of the Corporate Plan is to transform services, reduce costs and maintain resident satisfaction. This is being delivered by the Smarter Services Sutton programme. The methodology is transformational and provides options to innovate the design of more efficient service delivery models while prioritising the customer and subsequently resident satisfaction. The methodology also prioritises benefits realisation and interfaces with the annual resource allocation process. Expenditure reduction targets are included in Group Budget and Delivery Plans.
22. The Council recognises the importance of investing to secure skilled, efficient and effective Members and staff. The Corporate Plan drives our Organisational Development Strategy to ensure that the required skills are available. In recognition of our work, Investor in People accreditation has been maintained for the whole organisation.

Element 7: Financial management and reporting

23. An effective system of internal financial control is maintained based on a framework of financial regulations and procedures, including an integrated approach to budget and delivery planning. The Corporate Plan and forward budget are aligned. The Medium Term Financial Forecast is updated annually. The budget is set consistent with expenditure and income expectations and a prudent reserve. Regular reviews are undertaken of budget outturns. There is prioritised monitoring of volatile demand led budgets.
24. Clearly defined capital expenditure guidelines are in place with formal appraisals of proposals. The Capital Programme ensures that the Corporate Plan informs the prioritisation of capital bids and identifies the signature schemes.
25. Internal Audit undertakes risk based assurance reviews of the key financial systems that generate material transaction streams in the Statement of Accounts. It reviews other systems based upon a risk assessment that includes an anti-fraud component. An Annual Internal Audit Plan is prepared in consultation with Senior Managers and the Audit Committee.
26. Sutton Housing Partnership manages the housing stock and is paid a management fee. Ownership and responsibility for council housing and the Housing Revenue Account remains with the Council. Sutton Housing Partnership has its own External Auditors and its own Internal Audit Plan.

Element 8: Performance management and reporting

27. Performance management is part of the fabric of the organisation. The strong appetite for improvement evidenced by both the political and managerial leadership plays a pivotal role in ensuring that performance is embedded in behaviours and attitudes.
28. Budget and delivery planning and performance management are integrated. Targets help us stay on track. Performance is monitored via a web based system. At Group and Corporate levels, Performance Review Boards address underperformance. Scrutiny committees also review performance.
29. A strong culture of using information to support performance improvement is in place. We are developing the way we use information to identify gaps in service provision, long-term performance trends and potential business opportunities, in line with the strategic priority to deliver Smarter Services. Data quality processes help to ensure that performance information is complete and accurate.

Element 9: Partnerships and communication

30. Sutton in Partnership, the local strategic partnership for the borough, brings together representatives from the Council, schools and colleges, the local police, the fire service, the local health service and the voluntary and community sectors. It links to a wider network of stakeholders, forums and partnerships, which evolve over time to reflect changing needs, priorities and services.
31. The Partnership recently reviewed its role, structure and purpose and agreed to establish a smaller, more focussed operational group that will also have political representation and be supported by a wider stakeholder forum that will come together biannually focussing on thematic issues of importance to the Partnership. The Partnership also refreshed their priorities during 2010/11, publishing a new plan outlining this new way of working.
32. Where services are delivered through aligned or integrated working with partners there is regular reporting of delegated decision-making, performance and budget outcomes within the context of agreed business plans that are aligned to priorities. This ensures that partnership working adds appropriate value.
33. During 2010/11, the Community Engagement Strategy was replaced by the Community Empowerment Framework that sets out our commitment to and standards for involving local people. It describes how empowerment is central to our work on behaviour change and Smarter Services Sutton. It also prioritises increasing the impact of involvement and ensuring we provide feedback on how things have changed as a result. To support this approach, we are working towards making data that is not sensitive or personal available on our website. This Open Data approach is an increasingly important way of involving residents in the decisions that affect them.

**Review of Effectiveness**

34. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
35. The Audit Committee considers the Annual Review of Corporate Governance in which the governance arrangements are assessed against the CIPFA/SOLACE framework and CIPFA's statements on the roles of the Chief Finance Officer and Head of Internal Audit. The review of effectiveness builds on this by using other sources of assurance relating to the arrangements under review, including the work of the executive managers who have responsibility for the development and maintenance of the governance arrangements. The sources are summarised below:
- Reviews of the Constitution, including the delegation and reservation of powers
  - The work of the full council and committees, including the Audit Committee, Standards Committee and scrutiny committees
  - Reviews of services by management teams and boards, including Safeguarding Boards and the Information Security Board
  - Smarter Services Sutton reviews that include internal and external challenge
  - Risk assessments, including budget and delivery planning, business continuity, information data sets and fraud
  - Financial monitoring reports, including revenue budget, capital expenditure and treasury management

- Performance reports and the work of the Performance Review Boards
- Programme and project management reports, including Transforming Social Care
- The work and opinions of Internal Audit, including the annual review of the effectiveness of the system of internal audit and reviews of key financial systems
- The work of statutory inspectors, including the Care Quality Commission and the Office for Standards in Education
- The work and opinions of the external assessor for the Eco Management and Audit Scheme
- External Audit work and opinions on the Statement of Accounts, Value for Money, Certification of Grant Claims and Pension Fund.

36. We have been advised on the implications of the result of the review of the effectiveness of the governance framework. Where appropriate, improvement plans have been compiled in response to the reports and assessments summarised above.

### **Significant Governance Issues**

37. The governance framework is constantly evolving due to service and regulatory developments and assessments. Where appropriate, improvement plans have been compiled in response to the reports and assessments summarised above. Controls to manage principal risks are constantly monitored, in particular for services with statutory responsibilities for the safety of vulnerable people.

38. There are a number of significant challenges and key issues that have been highlighted by management and these will be monitored during the year ahead:

- Increased financial and service delivery risks; chiefly, the considerable challenge to achieve savings with pressure to deliver more quickly due to frontloaded grant reductions and the risk of inflation exceeding the government's target of CPI at 2%. We are addressing the savings issue through the Smarter Services Sutton programme. Expenditure reduction targets are integrated into Group Budget and Delivery Plans. The adequacy of the inflation provision is being monitored
- The possible failure to deliver Stanley Park High School capital project within the very tight timetable and self-financing resource plan, due to complexity (purchase and sale of sites; meeting planning and access requirements) and the impact of the economic downturn on site values. Preparation of the Development Brief is being progressed that will assist with the disposal of the site and an opportunity for further involvement by residents. The project will continue to be closely monitored and risk-mitigated to minimise potential adverse impacts of changing circumstances
- Following a review of the governance arrangements in place for the Sutton Town Centre refurbishment project, a number of management actions have been developed in conjunction with the Council's Corporate Management Team to address the control weaknesses that were highlighted and also a number of wider issues that relate to improving the Council's overall processes and systems for the management of its capital projects. In addition, the Chief Executive is leading a review of the commissioning and delivery arrangements for major projects across the Council and this will include the monitoring and governance structure and processes to ensure consistent and appropriate oversight including reporting through to Members

- Waste disposal is a principal financial risk. Annual increases in landfill taxes have a significant financial impact. The provision for increased costs will be insufficient unless the plans to divert waste away from landfill can be successfully realised. Action is being taken through the joint procurement process with the South West London Waste Partnership to reduce the amount of waste sent to landfill by finding more economic methods of treatment and through encouraging and promoting behaviour change to further increase the amount of waste that households recycle. Options are currently being considered in the Smarter Services Sutton review
  - The risk assumptions built into the funding arrangements for the capital programme may be insufficient. The market for surplus property assets may deteriorate further, reducing the resources available for investment. Government capital funding, particularly for schools places is under review and may not be sufficient. There is also the risk that interest rates rise above estimates affecting the cost of borrowing. Capital financing and spending strategies are being reviewed regularly taking account of developments and the impact on capital receipts and grants
  - The Health and Social Care Bill poses significant challenges for delivery due to the complexity and speed of the reorganisation. The Bill transfers local health improvement functions to the Council along with responsibilities for co-ordinating the commissioning of local NHS services, social care and health improvement. We are considering how we will provide local leadership and accountability, including establishing a Shadow Health and Wellbeing Board for Sutton.
39. Over the coming year steps will be taken to address the above matters and to further enhance the Council's governance arrangements. The Council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness. Their implementation and operation will be assessed as part of our next annual review.

**Chief Executive:**



**Date:** 30 June 2011

**On Behalf of the Council**

**Leader:**



**Date:** 30 June 2011

## **Auditors Opinion**

**2010/11**

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## Section 7

### Glossary

**2010/11**

An explanation of financial terms used in the Statement of Accounts.

**Accruals**

Amounts that are charged to the accounts for goods and services rendered/received during the year for which payments have not been received/made.

**Actuary**

An independent consultant who advises on the financial position of the pension fund.

**Actuarial Valuation**

A review carried out every three years, by the actuary, on the assets and liabilities of the pension fund. The actuary reports to the Council on the fund's financial position and recommended employers' contribution rates.

**Amortisation**

Writing out of debt, usually associated with capital expenditure on deferred charges where no asset is created.

**Appropriations**

The transfer of resources to and from various revenue reserves.

**Capital Expenditure**

Expenditure on the acquisition of a fixed asset or expenditure that adds value to an existing fixed asset.

**Capital Receipts**

Income from the sale of capital assets such as council dwellings, land and buildings.

**Central Support Services**

Services that are provided by the administrative and professional service groups that support all the Council's services. They include financial, legal, personnel, information technology, property and general administrative support.

**Carrying Amount**

This is the nominal value of the loan / investment plus accrued interest due to the end of the financial year.

**Collection Fund**

A fund operated by the authority into which all receipts of Council Tax and National Non-Domestic Rates are paid. Payments are made from the fund to support the Council's general fund services and to the precepting authorities. The fund must be maintained separately from the Authority's General Fund.

**Council Tax**

A tax on domestic properties, introduced 1 April 1993 as a replacement for the Community Charge (Poll Tax), based on their value.

**Creditors**

Amount of money owed by the Council for goods or services received.

**Debtors**

Amount of money owed to the Council for goods or services supplied.

**Deferred Charges**

Expenditure of a capital nature not in connection with a Council owned asset, e.g. renovation grants and capital grants to other organisations.

**Depreciation**

The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

**Earmarked Reserves**

Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

**Effective Interest Rate**

This method calculates the rate of interest that is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount at initial recognition.

**Extinguishment**

When the loan has been repaid and is cancelled or expired.

**Non-Current Assets**

Tangible assets that yield benefit to the local authority and the services it provides for a period of more than one year.

**General Fund**

The fund within which most transactions of a local authority take place. It includes the cost of all services provided (excluding the Housing Revenue Account) which are paid from government grants, generated income and the borough's share of Council Tax and business rate income.

**Housing Revenue Account (HRA)**

A local authority statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

**Impairment**

A reduction in the estimated recoverable value of an asset.

**Intangible Assets**

Assets that do not have physical substance, e.g. computer software licences.

**Levies**

Payments to London wide bodies such as the Lee Valley Regional Park Authority. The cost of these bodies is borne by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

**Minimum Revenue Provision**

The minimum amount that the Council must charge to the revenue account to provide for the repayment of debt.

**National Non-Domestic Rates (NNDR)**

This is a national tax on businesses based on a flat rate in the pound, set by Central Government. The tax collected by Sutton is paid into a central pool, controlled by Central Government. The central pool is redistributed to local authorities on the basis of adult population.

**Precept**

The charge made by one authority (e.g. Greater London Authority) on another authority (e.g. Sutton) to finance its net expenditure.

**Provisions**

Amounts set aside for liabilities or losses which are certain or very likely to be incurred but where exact amounts and dates on which these will arise are uncertain.

**Reserves**

Amounts set aside in one financial year which can be carried forward to meet expenditure in future years. Earmarked reserves are allocated for specific purposes. Unallocated reserves are often described as balances.

**Revenue Expenditure**

The regular day-to-day running costs an authority incurs in providing services e.g. salaries and wages, premises costs and supplies and services.

**Abbreviations used in the accounts**

<b>ALMO</b>	Arms Length Management Organisation
<b>AVC</b>	Additional Voluntary Contribution
<b>BSF</b>	Building Schools for the Future
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CLG</b>	Department for Communities and Local Government
<b>DCSF</b>	Department for Children, Schools and Families
<b>DSG</b>	Dedicated Schools Grant
<b>DSO</b>	Direct Service Organisation
<b>HRA</b>	Housing Revenue Account
<b>IAS</b>	International Accounting Standard
<b>I&amp;E</b>	Income and Expenditure
<b>IFRS</b>	International Financial Reporting Standard
<b>IT</b>	Information Technology
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee
<b>LOBO</b>	“Lenders Option Borrowers Option” Loan
<b>MRA</b>	Major Repairs Allowance
<b>MRP</b>	Minimum Revenue Provision
<b>NNDR</b>	National and Non Domestic Rates
<b>PCT</b>	Primary Care Trust
<b>PWLB</b>	Public Works Loan Board
<b>RICS</b>	Royal Institute of Chartered Surveyors
<b>SHP</b>	Sutton Housing Partnership
<b>SORP</b>	Statement Of Recommended Practice
<b>TPA</b>	Teachers’ Pension Agency
<b>UCR</b>	Usable Capital Receipts